OECD Studies on SMEs and Entrepreneurship

SME and Entrepreneurship Policy in Viet Nam

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Foreword

This publication presents the results of the OECD country review of small- and medium-sized enterprise (SME) and entrepreneurship policy of Viet Nam. It was prepared at the request of Viet Nam's Ministry of Planning and Investment (MPI) and carried out in collaboration with Viet Nam's Agency for Enterprise Development (AED), which reports to the MPI. This publication is part of a review series undertaken by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) which has so far covered the following countries: Brazil, Canada, Indonesia, Ireland, Israel, Italy, Kazakhstan, Mexico, Poland, the Russian Federation and Thailand.

The series provides a tool for assessing the design and implementation of SME and entrepreneurship policies, identifying areas for improvement and sharing policy experiences among countries. These reports typically include one or two thematic chapters on issues of special relevance for national governments. In the case of Viet Nam, the two thematic chapters are dedicated to business linkages and business development services.

The report shows that Viet Nam has been one of the fastest-growing economies in the world over the last 20 years, driven by inward FDI and export promotion. While most of Viet Nam's exports consisted of agricultural produce in the 1990s, today electronics account for half. As a result, Viet Nam's economy is propelled by large industrial, mostly foreign-owned, companies, while SMEs play a relatively smaller role than in OECD countries. Nonetheless, Viet Nam also has a large domestic informal sector, which means official statistics are likely to understate the real contribution of micro and small enterprises to national employment and national GDP.

Viet Nam is a highly entrepreneurial economy, as shown by high rates of business entry and business exit and high rates of high-growth firms and gazelles, and the quality of the national business environment has improved in recent years thanks to regulatory reforms and the reduction of the corporate income tax rate from 32% to 20%. Although state-owned enterprises still account for a large share of the national economy, hindering competition in many product markets, and compliance with tax regulations remains difficult for SMEs, the 2018 SME Support Law may help to address some of the challenges that are holding back a more vigorous SME sector. However, action on other instruments is needed. Most existing SME programmes have thin budgets and some of them, such as the SME Development Fund (SMEDF) and the Credit Guarantee Fund (CGF), have experienced low demand.

The report offers policy recommendations in a number of areas. Preferential corporate income tax rates for small and medium-sized enterprises (respectively 5 and 3 percentage points below the standard CIT rate) should be enforced, as originally envisaged in the SME Support Law. At the same time, a separate presumptive tax regime could be introduced to favour the formalisation of own-account workers and micro-enterprises, including household businesses. Programmes such as the SMEDF and the CGF require operational changes to make them more attractive to both SMEs and partnering banks. Innovation support should go beyond R&D promotion to strengthen innovation capabilities in SMEs, while supplier development programmes should also embrace the services sector to help Viet Nam move up global value chains. Finally, more efforts should be made to ensure that women are adequately represented in all SME support measures.

The OECD review series is based on a standard methodology, which includes a diagnostic questionnaire completed by national government authorities, a fact-finding mission by an OECD team to hold interviews with policy and business stakeholders, and discussion of a draft report at a peer review session in the OECD Working Party on SMEs and Entrepreneurship (WPSMEE), which operates under the auspices of the Committee on Industry, Innovation and Entrepreneurship (CIIE). Due to the COVID-19 pandemic, the draft report of the Viet Nam review [CFE/SME(2020)11] was discussed by the WPSMEE at a webinar organised in June 2020 and was approved by written procedure in December 2020.

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The project was managed by Mr. Marco Marchese (Policy Analyst, CFE), who also edited the report, and Mr. Trần Lương Thành (Junior Policy Analyst, CFE). Ms. Lois Stevenson (independent consultant) also edited parts of the report. The draft team involved: Marco Marchese (Chapter 1); Trần Lương Thành (Chapter 2 and Chapter 3); Lois Stevenson (Chapter 4 and parts of Chapter 5); Mr. Martin Andersson (Lund University, parts of Chapter 5); Ms. Roberta Rabellotti (University of Pavia, Chapter 6); and Mr. Kevin Mole (Warwick Business School, Chapter 7). Background research in the early phases of the project was undertaken by Mr. Lê Duy Bình (Viet Nam Economica Consulting), who also commented on parts of the report, and Ms. Ngô Thị Ngọc Bích (Intern, CFE). Ms. Heather Mortimer-Charoy (Assistant, CFE) provided project support.

The report benefited from comments and inputs by the members of the OECD Steering Group of the review: Mr. Necati Günadin (SME Agency – KOSGEB, Turkey); Mr. Johan Westra (Federal Public Service of Economics, Belgium); and Ms. Wipasirin Wisuthakul (Office of SME Promotion – OSMEP, Thailand).

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Acronyms and Abbreviations

ADB	Asian Development Bank	KOSGEB	SME Development Organisation of Turkey
AED	Agency for Enterprise Development	LGF	Loan Credit Guarantee Fund
APO	Asian Productivity Organisation	LURC	Land Use Rights Certificate
ASEAN	Association of South East Asian Nations	MFI	Microfinance Institution
BDS	Business Development Service	MNE	Multinational Enterprise
CGF	Credit Guarantee Fund	MIC	Ministry of Information and Communications
CIT	Corporate Income Tax	MOET	Ministry of Education and Training
CRM	Customer Relations Management	MOF	Ministry of Finance
ERC	Enterprise Registration Certificate	MOIT	Ministry of Industry and Trade
ERP	Enterprise Resource Planning	MOLISA	Ministry of Labour, Invalids and Social Affairs
FDI	Foreign Direct Investment	MONRE	Ministry of Natural Resources and Environment
FTA	Free Trade Agreement	MOST	Ministry of Science and Technology
GDP	Gross Domestic Product	MPI	Ministry of Planning and Investment
GDVC	General Department of Viet Nam Customs	NAFOSTED	National Foundation for Science and Technology Development
GEM	Global Entrepreneurship Monitor	NATEC	National Agency for Technology Entrepreneurship and Commercialisation Development
GSO	Viet Nam General Statistical Office	NATIF	National Technology Innovation Fund
GVC	Global Value Chains	NEEC	National Entrepreneurship and Education Commission
HCMC	Ho Chi Minh City	NPDP	National Productivity Development Programme
HGF	High Growth Firm	NPL	Non-Performing Loan
HNX	Hanoi Stock Exchange	NPTI	National Program on Technology Innovation
HOSE	Ho Chi Minh Stock Exchange	NSGE	National Strategy on Gender Equality
ICT	Information and Communication Technologies	NSW	National Single Window
IFC	International Finance Corporation	NTPP	National Trade Promotion Programme
ILO	International Labour Organisation	NWBSP	National Women-led Business Start-up Programme
IMF	International Monetary Fund	OECD	Organisation for Economic and Cooperation and Development
IPO	Initial Public Offering	OEM	Original Equipment Manufacturer
IPR	Intellectual Property Right	PCG	Partial Credit Guarantee
ISIC	International Standard of Industrial Classification	PCI	Provincial Competitiveness Index
ITC	United Nations International Trade Centre	PE	Private Equity
ITU	International Telecommunication Union	PIP	Performance Improvement Programme

PISA	Programme for International Student Assessment	UNU-WIDER	United Nations University - World Institute for Development Economics Research
PIT	Personal Income Tax	UPCOM	Unlisted Public Company Market
PPP	Purchasing Power Parity	VASI	Vietnam Association for Supporting Industries
RIA	Regulatory Impact Assessment	VAT	Value Added Tax
SBV	State Bank of Viet Nam	VC	Venture Capital
SDBS	Structural and Demographic Business Statistics	VCCI	Viet Nam Chamber of Commerce and Industry
SI	Supporting Industries	VDB	Viet Nam Development Fund
SME	Small and Medium Enterprise	VECITA	Viet Nam Electronic Commerce and Information Technology Agency
SMEDF	Small and Medium Enterprise Development Fund	VIETRADE	Viet Nam Trade Promotion Agency
SOE	State Owned Enterprise	VINASME	Viet Nam Association of Small and Medium Enterprises
STE	Science and Technology Enterprise	VND	Viet Nam Dong
STEM	Science Technology Engineering Mathematics	VSIC	Viet Nam Standard Industrial Classification
SSC	State Securities Commission	VWEC	Viet Nam Women Entrepreneurs Council
TiVA	Trade in Value Added	VYF	Viet Nam Youth Federation
TAC	Technical Assistance Centre	WBDB	World Bank Doing Business
TEA	Total early-stage Entrepreneurial Activity	WBES	World Bank Enterprise Surveys
TPO	Trade Promotion Organisation	WDI	World Development Indicators
TVET	Technical and Vocational Education and Training	WED	Women's Entrepreneurship Development Expert Panel
UNCTAD	United Nations Conference on Trade and Development	WEF	World Economic Forum
UNDP	United Nations Development Programme	WIPO	World Intellectual Property Organisation
UNESCO	United Nations Educational, Scientific and Cultural Organisation	WISE	Women's Initiative for Start-ups and Entrepreneurship
UNIDO	United Nations Industrial Development Organization	WTO	World Trade Organisation

Basic Statistics of Viet Nam

Population					
Population (millions), 2019	96.5		Life expectancy (years), 2016	76.3	(80.1)
Under 15 (%)	23.1	(17.9)	Male	71.5	(77.5)
Over 65 (%)	7.1	(16.8)	Female	80.9	(82.8)
Latest 5-year average population growth (%)	1.1	(0.6)	Largest cities (million people), 2019		
Income inequality (Gini coefficient), 2016	35.3	(31.8)	Ho Chi Minh City	9.0	
Latest general election	2016		Ha Noi	8.1	
Economy					
GDP (current billion USD), 2019	266.5		Value added shares of GDP, 2017		
GDP growth (%), 2019	7.0	(1.7)	Agriculture, forestry and fishing (%)	15.3	(1.4)
GDP per capita, PPP (constant 2017 USD), 2019	8 041	(44 688)	Industry (including construction) (%)	33.4	(22.5)
GDP per capita growth (%), 2019	6.0	(1.1)	Services (%)	41.3	(69.7)
General government					
Revenue (% of GDP), 2015	23.8	(40.1)	Gross debt (% of GDP), 2015	57.4	(70.2)
Expenditure (% of GDP), 2015	29.2	(41.7)	Tax revenue (% of GDP), 2015	18.2	(34.0)
External accounts					
Exports of goods and services (% of GDP), 2019	106.8	(29.2)	Net FDI inflows (% of GDP), 2017	6.3	(2.3)
Imports of goods and services (% of GDP), 2019	103.6	(28.9)	Exchange rate (VND per USD), 2019	23 223	
Current account balance (% of GDP), 2018	2.4	(1.9)	PPP for GDP (VND for USD), 2017	7 735	
Main merchandise exports (%), 2018			Main merchandise imports (%), 2018		
Electrical machinery and equipment	41.7		Electrical machinery and equipment	26.6	
Footwear and gaiters	8.5		Machinery and mechanical appliances	9.5	
Machinery and mechanical appliances	5.9		Plastics and articles	5.5	
Labour market, skills and innovation					
Labour participation rate (aged 15-64, %), 2018	83.3	(71.5)	Unemployment rate (age 15+, %), 2017	1.9	(5.8)
Men (male population aged 15-64, %)	87.2	(79.6)	Youth (age 15-24, %)	7.3	(12.8)
Women (female population aged 15-64, %)	79.4	(63.3)	Firms with female top manager (%), 2015	22.4	(16.2)
Vulnerable employment (% of total), 2018	54.6	(11.8)	R&D expenditure (% of GDP), 2017	0.4	(2.5)

Note: OECD average value in parentheses. Sources: OECD database, World Bank, International Monetary Fund, International Labour Organisation, Observatory of Economic Complexity, Gallup World Poll, and national sources.

Executive Summary

This report presents the findings of the OECD review of SME and entrepreneurship policy of Viet Nam, which was undertaken over the period 2019-2020. The report assesses the main strengths and weaknesses of Viet Nam's SME and entrepreneurship policies and offers policy suggestions to help address the main existing challenges. It includes chapters on SME and entrepreneurship characteristics and performance; the business environment for SMEs and entrepreneurship; the governance of SME and entrepreneurship policy; SME and entrepreneurship support programmes; business linkages; and business development services.

Key findings

Viet Nam's (formal) SMEs contribute less to national employment and GDP than in the OECD area

Viet Nam has been one of the world's fastest-growing economies in the last twenty years. The major economic reforms of the mid-1980s (*Đổi Mới* reforms) saw Viet Nam's growth model gravitate towards attracting foreign direct investment (FDI) and exports of manufactured goods. In 2019, trade flows (i.e. the sum of imports and exports) relative to GDP reached 210%, the highest value in the world for countries with a population of at least 50 million people. The content of exports has also changed over time, moving from basic agricultural produce in the 1980s, to textiles and footwear in the 1990s and 2000s, and to electronics in more recent years. As a result, industry accounts for 55% of total employment and for 62% of national value added (significantly higher than OECD averages, 23% and 33% respectively), with large manufacturing companies alone contributing 40.5% of GDP. By contrast, SMEs (1-249 employees) employ 47% of Viet Nam's labour force and generate 36% of national value added, much less than in the OECD area, although these figures are biased downward by the presence of a large domestic informal sector. Although SMEs account for a smaller share of the formal economy than in OECD countries, Viet Nam displays strong entrepreneurialism, as shown by high rates of business churning (business entry and exit rates combined), high-growth firms and gazelles.

Viet Nam's business environment has constantly improved, but there are still areas in need of policy reforms

Overall, Viet Nam's business environment is conducive to business growth, although there are still areas for improvement. The national government has eased product market regulations through a series of simplification reforms, such as Project 30, and has lowered the statutory corporate income tax rate from 32% in the early 2000s to 20% today. The government is also envisaging the introduction of a preferential tax regime for SMEs which appears to be well designed, although it has not yet been voted into law by the National Assembly. On the downside, state-owned enterprises still account for a large share of the national economy (40% of GDP), hindering competition in many product markets, while compliance with tax regulations remains difficult, especially for SMEs.

Viet Nam's basic education is of good quality, as shown by OECD PISA (Programme for International Student Assessment) scores, which are in line with OECD averages. However, there are also clear signs of inequality in access to higher education and skills mismatches in the labour market. The technical and vocational education and training (TVET) system could help address these mismatches, but it currently falls short of this objective. Viet Nam's national innovation system is at an early stage of development, in line with the country's lower-middle income status. The government has introduced relevant laws to prop up the national innovation system, but some of them need to be better enforced or adjusted, such as the Intellectual Property Rights Law and the Science and Technology Enterprise Law.

Viet Nam's SME and entrepreneurship policies are relatively new

Viet Nam's first SME and entrepreneurship policies date back to 2001, when a national law introduced a legal definition of an SME and established the SME Development Agency, which has since become the Agency for Enterprise Development (AED). More recently, the 2018 SME Support Law showed the commitment of the national government to supporting domestic SMEs. This law covers different policy areas such as taxation, access to finance, innovation and value chain development, although there are still areas that lack sufficient attention (e.g. SME digitalisation) and others where results have not been encouraging so far (e.g. the conversion of household businesses into formally registered enterprises). SME and entrepreneurship policy sees the involvement of different ministries and levels of government in Viet Nam, which calls for appropriate policy co-ordination arrangements. The SME Development Council was introduced in 2001 to this purpose, but it has not worked properly until now; it could, accordingly, be revamped to enhance co-ordination in SME and entrepreneurship policy.

Viet Nam has a relatively small number of targeted programmes for SMEs, some of which have experienced low take-up

Viet Nam has a relatively small number of programmes that specifically target SMEs, some of which have also experienced low take-up; for example, the SME Development Fund (SMEDF) and the Credit Guarantee Fund (CGF) both have low usage by SMEs and partnering banks. For banks, this may be because capped interest rates are set too low, which is exacerbated by limited confidence that public guarantees will be honoured (in the case of the CGF and especially for guarantees backed by provincial governments), while, for SMEs, cost-sharing requirements may be too high, for example in the case of the SMEDF.

Innovation policy has mostly focused on the support of R&D and Intellectual Property Rights (IPR), *de facto* excluding most small companies in non-high-tech sectors. The introduction of simple policy instruments, such as innovation vouchers, could help redress this bias by strengthening innovation capability also in smaller enterprises. Policies to encourage business internationalisation have prioritised trade facilitation (e.g. through the launch of the Viet Nam Trade Information Portal), while trade promotion efforts for SMEs (e.g. market information, export advice, participation in e-commerce) are still at an incipient phase.

Training policies have mostly focused on labour market entrants and the unemployed, with less attention placed on training employees in SMEs. Finally, women's entrepreneurship support has recently gained some traction through a new project aimed at women's start-ups. Nevertheless, the government should also ensure that women are adequately represented in all SME and entrepreneurship programmes, including those under the framework of the SME Support Law.

Building stronger business linkages between MNEs and SMEs calls for an integrated policy approach

While Viet Nam has been successful in attracting FDI and developing an export-led model of growth, buyer-supplier linkages between multinational enterprises (MNEs) and local SMEs are still limited, which reduces the scope for technology spillovers from FDI. A number of factors explain this situation, including difficulties for potential upstream SMEs to meet international technical standards and to achieve economies of scale. Viet Nam's main policy to encourage local SMEs to tap into GVCs is the "Supporting Industry" development programme, which targets six specific manufacturing sectors (i.e. textiles and apparel; footwear and leather; electronics; automobile; metal/machine tools; and high-tech industry). This programme is well-intended, but it should expand its focus to include potential SME upstream service suppliers as well as to second-tier suppliers. In addition, this programme could move beyond the mere provision of tax incentives and loan subsidies to embrace other important mechanisms that could boost upstream integration such as through supporting training, capacity building and business matchmaking. More generally, a more integrated approach is necessary to build supply chains that are more inclusive of domestic SMEs. This approach would hinge on four main pillars: improving firm-level capabilities and compliance with international technical standards; ease the search process for MNEs in finding "qualified" and "verified" domestic suppliers; upgrading the physical, digital and institutional infrastructure (e.g. upgrading the transport system, but also reinforcing IPR protection and supply chain finance); and encouraging relevant research from universities and the supply of support services from other stakeholders (e.g. testing by certification labs) in the national innovation system.

The government is promoting business development services (BDS) through direct provision and by enabling a private market

Business development services (BDS) are non-financial services (e.g. training, advice and mentoring) that aim to improve the performance of enterprises in terms of access to and ability to compete in domestic or international markets. The main objective of BDS is, therefore, enhancing the competitiveness of SMEs by strengthening their managerial skills. The Agency for Enterprise Development (AED) is the main government entity in charge of BDS promotion in Viet Nam, notably through the three Assistance Centres for SMEs, commonly known as TAC (from the previous name of Technical Assistance Centres), which are located in Ha Noi (North), Da Nang (Centre) and Ho Chi Minh City (South). The TAC centres play an important role and should be strengthened, either by creating more in other locations or by enhancing the decentralised training offer of the existing centres, for example through the use of mobile BDS clinics to reach more peripheral locations. Going forward, it will also be important to further encourage the rise of a private market for BDS, in particular by helping SMEs defray the costs of private-sector BDS providers and ensuring the good quality of the subsidised business support services. In this respect, two recent pilot projects in Ha Noi and Ho Chi Minh City set a good example on which the government could build to create a national network of accredited BDS organisations.

Selected recommendations

- Move forward with the current plan to enforce a preferential corporate tax regime for SMEs, in particular the legal provisions introducing lower tax rates for micro and small companies.
- Consider the introduction of another presumptive tax regime for household businesses and own-account workers to encourage their formalisation.
- Revamp the SME Development Promotion Council and expand its mandate to play a stronger inter-ministerial co-ordination role.
- Strengthen SME policy planning capacities in provinces that have not yet developed a local SME Development Plan by leveraging on the expertise of the Agency for Enterprise Development.

- Decrease the coverage rate of the CGF from 100% to closer to 80% to promote risk-sharing with partnering banks, and increase the annual premium fee for the credit guarantee from 0.5% to 1-2% (of the total guaranteed loan and interests) in order to promote the sustainability of the Fund.
- Complement supply-led programmes supporting R&D and technology-based enterprises with interventions, such as innovation vouchers, that aim to improve the innovation capacity of SMEs through skills upgrading and ICT adoption.
- Support more generously within-company training, with a view to enhancing the average labour productivity of SME workforces; for example, by implementing a demand-driven programme aimed at the upgrading of workforce skills in SMEs.
- Ensure that women-owned businesses are adequately represented in all government SME and entrepreneurship programmes, including those under the framework of the SME Support Law.
- Increase flexibility in the criteria for identifying “supporting industry” products to account for changes in industries and global value chains, expand the list to include key value chain services, and extend incentives beyond first-tier suppliers.
- Consider establishing new Assistance Centres for SMEs to ease access to government-supported BDS by SMEs located away from the current three centres. Alternatively, build up and expand the capacity of the existing centres to reach more peripheral locations, for example through mobile training units.
- Encourage the rise of a private market for BDS by covering part of the training or consulting costs faced by SMEs, while also controlling and ensuring the good quality of publicly-subsidised, private-sector BDS.

1 Assessment and recommendations

This chapter summarises the main findings of the report. It shows that Viet Nam's (formal) SMEs contribute to national employment and national GDP proportionally less than in the OECD area, but that a large domestic informal sector implies an underestimation by official statistics of the real weight of micro and small companies in the economy. Viet Nam's business environment has considerably improved in recent times, although there are still areas where major policy reforms are needed. SME and entrepreneurship policy has a recent history in Viet Nam; however, the recent SME Support Law signals the commitment of the government to actively promoting domestic SMEs. The government has introduced a number of programme measures that specifically target SMEs and entrepreneurs, although programme budgets have sometimes been small and some of the initiatives have experienced low take-up. Finally, the promotion of business linkages between multinationals and domestic SMEs and the support of business development services have been two policy priorities of the government.

SME and entrepreneurship characteristics and performance in Viet Nam

Large industrial firms are the core of the Vietnamese economy

Industry has underpinned Viet Nam's rapid growth over the last two decades. In 2016, it accounted for 55% of the total workforce and 62% of national value added, both of which are much higher values than the corresponding OECD averages (23% and 33% respectively). As a result, services (excluding wholesale and retail trade) still play a limited role in Viet Nam, accounting for 17% of total employment and 13% of national value added, compared to 43% and 40% in the OECD area.

From a firm size perspective, SMEs (1-249 people employed) represent 96% of the total stock of companies, employ 47% of the labour force and account for 36% of national value added, all figures significantly below the corresponding OECD averages. The top 1% largest companies employ more than half of the total workforce in Viet Nam (51%), while the top 10% accounts for 83% of total employment. Among the 100 largest firms 91 are found in industry, which indicates the extent to which large manufacturing companies are at the core of the Vietnamese economy.

A large informal sector entails that official statistics underestimate the real contribution of SMEs to the economy

Data from Viet Nam's General Statistics Office (GSO) only cover the formal sector; however, the informal sector is large in Viet Nam and mostly consists of household businesses, own-account workers and micro-enterprises. Based on estimates by the national labour force survey, informal workers represent 57.2% of total (non-agricultural) employment. In addition, the GSO gauges that there are about half a million registered businesses compared with 5.1 million unregistered businesses, i.e. businesses that do not have an Enterprise Registration Certification, although this figure also includes enterprises that are not required to have one, such as household businesses.

Viet Nam's labour productivity has converged rapidly towards the OECD average over the last 10 years

Since the major economic reforms of 1986 (*Đổi Mới* reforms), which introduced free-market incentives while keeping government planning in place, Viet Nam has experienced strong productivity growth, with a process of convergence that has significantly accelerated since 2010. In the period 2015-2017, annual labour productivity growth averaged 7%, more than any other major emerging economy. Labour productivity levels in Viet Nam do not differ significantly by sector (e.g. between industry and services) and by firm size, especially between mid-sized (50-249 employees) and large enterprises (250+ employees), while the gap with small-sized firms (10-49 employees) is more pronounced. However, Viet Nam's labour productivity estimates at the sector and firm-size levels are also biased by widespread informality, which implies an underreporting of employment especially in services and smaller enterprises.

Vietnamese SMEs appear to be quite innovative, based on survey results

Based on data from the World Bank Enterprise Surveys (WBES), Vietnamese SMEs perform quite well both in product and process innovation, including in the adoption of automation. At the same time, limited R&D spending in SMEs suggests that most innovation is of a "frugal nature", such as making small modifications to existing products to make them more accessible to low-income customers. As to ICT, the use of company websites by Vietnamese SMEs is in line with the ASEAN average, while the adoption of software programmes such as Enterprise Resource Planning (ERP) or Customer Relations Management (CRM), both of which are needed if companies are to export or to integrate into global supply chains, is still rare.

SMEs are adequately involved in national exports, but most of them are foreign-owned

Viet Nam is an export-driven economy. Firms involved in exports account for 8% of the total number of registered companies, but employ 47% of the national labour force. In Industry, which accounts for 68% of national exports, exporting companies employ 86% of the total labour force. SMEs play a relevant role in exports, accounting for 88% of exporting enterprises and for about half of export volume. However, 70% of Viet Nam's SME export volume comes from foreign-owned SMEs which have relocated to Viet Nam to be closer to multinational enterprises (MNEs) acting as their lead buyers.

Mid-sized manufacturing firms show strong managerial skills

Data from the World Management Survey (which only covers mid-sized and large firms in manufacturing) show that Viet Nam's managers of manufacturing mid-sized companies do better than their peers from other large emerging economies (e.g. Brazil, China and India). The gap in managerial skills between mid-sized and large firms is also much smaller in Viet Nam than the OECD average, which is expected to facilitate buyer-supplier relationships. This figure is also likely to be influenced by the presence of many foreign-owned supplier companies in Viet Nam.

Entrepreneurial activity and business ownership are very common

Based on population survey data (Global Entrepreneurship Monitor, GEM) and national business statistics, Viet Nam emerges as a very entrepreneurial economy. This is the outcome of rapid growth that has generated business opportunities both for local entrepreneurs and foreign investors. Viet Nam has a high total entrepreneurial activity rate (population survey data), a high business churning rate (business entry and exit rates combined), and high rates of high-growth firms and gazelles. In addition, the self-employment rate is exceptionally high by international standards (56% of total employment), although this figure also underlies a lack of other job opportunities and the limited scale-up of existing SMEs.

The business environment for SMEs and entrepreneurship

Viet Nam has grown rapidly over the last 20 years

Viet Nam has grown rapidly over the last 20 years thanks to an export-led growth strategy of which the attraction of foreign direct investments (FDI) has been a major component. Monetary policy has accommodated this strategy through a fixed, crawling peg exchange rate with the US dollar which has aimed to keep domestic exports competitive. Thanks to sustained growth, the labour market is also particularly buoyant: participation rates are high and unemployment rates are low. Women are very active in the labour market, which is the outcome of government policies aimed at giving equal access to education and job opportunities to women.

Export promotion and FDI attraction have been major drivers of Viet Nam's rapid economic growth

Since the *Đổi Mới* reforms of 1986, Viet Nam has rapidly opened its economy to foreign trade and FDI. In 2019, trade flows (i.e. the sum of imports and exports) in relation to GDP reached 210%, the highest global figure for countries with a population of at least 50 million people. The content of exports has also changed over time, moving from basic agricultural produce such as seafood, to textile and footwear later, and to electronics today.

FDI attraction has been a key component of this export-led growth strategy: in 2018, foreign-owned companies accounted for 70% of Vietnamese exports. Based on information from the OECD FDI

Regulatory Restrictiveness Index, Viet Nam is among the most open economies to FDI in the ASEAN region and is rapidly converging towards OECD standards. While Viet Nam has been successful at FDI attraction, linkages between multinational enterprises (MNEs) and SMEs need to be enhanced. By way of example, imports still account for about 80% of the total inputs into Viet Nam's final export goods.

Business regulations have been simplified, but state-owned enterprises still play a large role in the economy

Viet Nam has eased business regulations through a number of policy reforms, such as Project 30, which has lowered regulatory compliance costs since 2010, or the Provincial Competitiveness Index (PCI), which ranks local governments on the implementation of national regulations and on the effectiveness of local regulations. In 2020, Viet Nam ranked 70th in the World Bank Doing Business (WBDB) survey, 30 positions better than in 2014. The areas of the WBDB where Viet Nam still needs to improve mostly affect the quality of the insolvency regime and of the tax system. In addition, state-owned enterprises (SOEs), which account for 40% of GDP, hinder competition in many domestic markets. The government has made plans to privatise some of them, but progress has been slow. Besides privatisations, it would be important to increase transparency and improve the overall corporate governance of SOEs.

Viet Nam has reduced considerably its corporate income tax rate and is considering a preferential tax regime for SMEs

Viet Nam collects most of its tax revenue from the corporate income tax (CIT) and the value added tax (VAT), while the high proportion of informal workers and low-income population means that personal income taxation (PIT) generates few tax proceeds. Between 2004 and 2017 Viet Nam reduced its statutory CIT rate from 32% to the current 20% (lower than the OECD and ASEAN averages) with the objective of further attracting FDI and encouraging business growth. However, since CIT is a main source of tax revenue, this also means that tax revenue in relation to GDP has declined since 2010, thus curbing the capacity of the government to spend on public policies.

The 2018 SME Support Law put forward for the first time the idea of a preferential tax regime for SMEs. This provision of the law, however, is still pending approval by the National Assembly and, as of mid-2020, had not yet come into force. Viet Nam's envisaged SME preferential tax regime is well designed, to the extent that the small differences between the statutory CIT rate and the SME preferential rates (between 3 and 5 percentage points) should not cause major "threshold effects" that discourage enterprise growth. On the downside, the clause of the law offering a two-year CIT exemption for the household businesses that convert to formally registered enterprises does not seem to be generous enough to succeed. A separate and highly simplified tax regime of presumptive nature, in the vein of Brazil's Individual Micro-Entrepreneur tax scheme, could be more appropriate to encourage the formalisation of household businesses and own-account workers who have long been used to operating in semi or full informality.

State-owned banks are an important source of SME financing in Viet Nam

SME lending accounts for 22% of total bank lending in Viet Nam. Although there are not fully comparable international statistics on SME credit, this figure appears to be in line with that in many OECD countries. State-owned banks are an important source of SME financing in Viet Nam, accounting for about half of total SME loans. Going forward, stronger competition in credit markets – for example by encouraging the rise of alternative lending institutions such as credit co-operatives – and wider use of loan guarantees could help further enhance access to finance for SMEs.

Viet Nam's basic education is of good quality, but there are signs of skills mismatches in the labour market

Viet Nam's basic education is of good quality, as shown by OECD PISA (Programme for International Student Assessment) scores that are in line with OECD averages. On the downside, less than one-third of high-school students completes secondary education and enrols in tertiary education, pointing to inequality in access to higher education. There are also signs of skills mismatches in the labour market, to the extent that 43% of Vietnamese working youths are in jobs that do not match their qualifications. The technical and vocational education and training (TVET) system could help address existing skills mismatches, but it currently falls short of this objective. Co-operation between employers and training institutes is mostly limited to basic forms such as student internships, while the joint development of training curricula is far less common.

Viet Nam's national innovation system is still at an early stage of development

The national innovation system is still at an early stage of development, which reflects Viet Nam's lower-middle income status. Business R&D spending in relation to GDP has increased by 8 times between 2011 and 2017 but is still only 0.4%, lower than in other ASEAN countries such as Malaysia and Thailand (OECD average, 1.6%). Innovation linkages are also weak, as shown by low levels of university-industry research collaboration. With respect to information and communication technologies (ICT), Viet Nam offers a more mixed picture. Viet Nam has lost positions in the international ICT Development Index in the 2000s, but it has also experienced an upsurge in both internet and mobile phone subscriptions. Viet Nam has introduced a number of innovation-related laws to strengthen its national innovation system, such as the Intellectual Property Rights Law and the Science and Technology Enterprise Law which, however, need to be better enforced or adjusted.

The governance of SME and entrepreneurship policy in Viet Nam

SMEs have received increasing attention in national legislation

SME and entrepreneurship policies have a recent history in Viet Nam. In 1999, the government introduced the Enterprise Law, which deals with everything related to the incorporation, governance and operations of enterprises regardless of their size. Later, in 2001, a national law introduced for the first time a legal definition of SME and established the SME Development Agency, which is today called the Agency for Enterprise Development (AED), and the SME Development Council. Finally, in 2018, Viet Nam voted the SME Support Law, which sets out specific support measures for SMEs and shows the commitment of the government to the promotion of the domestic SME sector. The SME Support Law covers many different policy areas – from taxation to access to finance, from innovation to value chain development – although there are still some areas that lack sufficient attention (e.g. SME digitalisation) and others where results have not yet been successful (e.g. the conversion of household businesses into formally registered enterprises).

Inter-ministerial co-ordination needs to be strengthened

The Ministry of Planning and Investment (MPI) and the AED, which reports to the MPI, are the main institutional players responsible for SME and entrepreneurship policies in Viet Nam. However, many other ministries and agencies operate relevant policies and programmes, which calls for strong institutional co-ordination. This role should in principle be performed by the SME Development Council, but this government body has not worked properly until now and could be revamped. The AED, which is to act as the Secretariat of the Council, should also receive adequate resources to carry out this task. Co-ordination between the national and provincial governments and consultation with the private sector are adequate, although some provinces lack the human and financial resources to implement SME support measures. In this case, the expertise of the AED could be leveraged further to help lagging provinces introduce appropriate SME programmes.

There is adequate policy monitoring but little policy evaluation

The government of Viet Nam releases an annual report which monitors progress on the implementation of the SME Support Law. The government has generally performed well on monitoring policy implementation, but less so on formal impact evaluations. While proper evaluations are complex and expensive exercises, the government should consider evaluating at least its largest programmes, with the aim to identify and correct elements that are not working well and to show value for money to taxpayers and international donors.

SME and entrepreneurship support programmes in Viet Nam

The SME Development Fund and the Credit Guarantee Fund are useful policy initiatives but experience low demand

The government of Viet Nam fosters SME financing primarily through the SME Development Fund (SMEDF) and the Credit Guarantee Fund (CGF). Both are useful initiatives, but they experience low take-up. The SMEDF, delivered mainly through partnering banks, provides 80% of the loan amount at interest rates capped below the market rates, with the borrowing company required to contribute 20% of the project cost. However, the first provision might discourage the participation of commercial banks by reducing excessively the profit margins on the SMEDF-backed loans, while the second condition might deter cash-constrained small businesses from applying. Low awareness of the SMEDF among small companies and a long approval process have also been reported as reasons underlying the limited use of this Fund.

The CGF has also experienced low demand. The government should consider making adjustments in the coverage rate of the loan guarantees and in the loan guarantee fee in order to strengthen the sustainability of the CGF. In addition, commercial banks have been reluctant to accept the government-backed guarantees, especially at the local level, lacking confidence that these will be honoured by provincial governments. Finally, the quality of the staff managing the local guarantee funds and the efficiency of the guarantee approval process would have to be improved in order to boost the take-up of this programme.

Equity finance for SMEs is growing fast, but requires a stronger regulatory framework

The legal framework for equity finance is still at an early stage of development in Viet Nam. Most venture capital (VC) funds with operations in Viet Nam are legally registered abroad, mostly Singapore, to escape the uncertainty of the national regulatory framework. To further incentivise the provision of SME equity finance in Viet Nam, the government could consider the introduction of tax deductions for investments in seed and early-stage ventures, either directly or through participation in VC funds, as well as favourable taxation on capital gains.

The current public listing option for small fast-growing firms is the Unlisted Public Company Market (UPCoM) at the Ha Noi Stock Exchange, which is based on the principle of lower information disclosure and corporate governance requirements than in the mainstream stock market. The number of companies and the volume of capitalisation of this market have increased rapidly since its creation, raising concerns about possible fraudulent activities. The government is addressing this problem by making some of the current listing requirements more stringent.

Innovation support is overly focused on R&D and IPR, thus excluding the majority of SMEs

Innovation support is a common target of Viet Nam's enterprise support policies, although budgets are small and programmes are not very inclusive of SMEs due to their focus on R&D and the development of intellectual property rights (IPRs). For example, the SME Support Law offers preferential innovation support to SMEs that are part of value chains and clusters, *de facto* excluding SMEs that do not meet this requirement. Similarly, the legal definition of "Science and Technology Enterprise" is very strict and makes compliance difficult even for those SMEs which could in principle join this target group. Policies to encourage the development of an innovative start-up ecosystem are underway and prioritise the support of business incubators through capacity-building activities. In this respect, the government could set national quality standards to ensure more consistency in the performance of business incubators. Overall, innovation policy support is mostly focused on supply-side measures, while little attention is given to building innovation capabilities at the firm level so as to strengthen the capacity of SMEs to absorb external technology. Simple policy instruments, such as technology or innovation vouchers, could help redress this bias and make innovation policies more inclusive.

Trade facilitation and promotion mechanisms should be complemented with export-readiness and e-commerce support

Formal trade promotion efforts to build export capacity are relatively recent in Viet Nam. The government has invested considerable resources in improving the system of trade facilitation through the establishment of the National Single Window (NSW) and the Viet Nam Trade Information Portal, which both aim to save time and cost for traders at the border. However, some ministries have been slow to integrate into the NSW system, while SMEs are still little aware of these two instruments. Support to SMEs in export promotion could be broadened by providing market information, access to export consultancy and opportunities for business matchmaking, including through the implementation of a dedicated export-readiness programme for SMEs. Policy mechanisms for engaging SMEs in the use of e-commerce platforms should also be pursued more proactively.

The potential of public procurement for SME growth should be harnessed

The value of public procurement, including contracts issued by SOEs, is estimated at USD 25 billion per year in Viet Nam. Although the national procurement law allows for preferential treatment of SMEs in public bidding processes, there are no stated policy targets of government contracts (volume) to be assigned to SMEs. The government could consider introducing "set-asides" to foster SME development through public procurement. This would involve either establishing a given proportion of government contracts (volume) to be assigned to SMEs or reserving small contracts (under a value threshold) only for SMEs.

The government could more pro-actively support workplace-based training in SMEs

Viet Nam does not currently have a public programme specifically aimed at enhancing the technical skills of SME workforces. TVET institutes primarily focus on basic skills training for new labour market entrants and the unemployed, rather than on programmes to upgrade the skills of current workers, although this is key to building up the innovation capacity of SMEs. The government could consider setting up a dedicated workforce training programme for established SMEs, making sure that this initiative is the result of close collaboration between training institutes and business enterprises.

Entrepreneurship education is in early stages, especially in primary and secondary education

The Ministry of Education and Training (MOET) has stated the importance of instilling the spirit of entrepreneurship in Vietnamese youth at an early age, but little progress has been made to integrate entrepreneurial learning at the primary and secondary levels of education. The government could consider creating a National Entrepreneurship and Education Commission, whose task would be to develop a strategic approach to entrepreneurial learning throughout all levels of the educational system.

More progress has been made in introducing university and vocational college students to entrepreneurship. In particular, both the MOET and the Ministry of Labour, Invalids and Social Affairs (MOLISA) have developed plans to implement relevant programmes under the "Scheme for Supporting Students' Start-ups to 2025". However, while a few universities have launched entrepreneurship education initiatives, none has yet developed a full entrepreneurship curriculum. The ASEAN Common Curriculum for Entrepreneurship could be a useful framework for designing a national entrepreneurship education curriculum at the university level. Vocational colleges and schools have so far received little guidance on how to infuse entrepreneurship in their activities, develop linkages with the business community, and teach instructors on how to deliver entrepreneurship training. These limitations could be addressed by allocating a specified percentage of budget assistance from the national programme to vocational colleges.

Programme support for women's entrepreneurship has recently gained traction

The National Strategy on Gender Equality 2011-2020 set a target to increase the share of SMEs owned by women to at least 35% by 2020 and instructed the various ministries to co-operate in the implementation of the strategy nationwide. In the past, government support for women's entrepreneurship has been limited. However, "Project 939" ("Supporting women in starting a business in the period 2017-2025"), launched by the government in mid-2017, is a sizeable initiative with ambitious targets for increasing the number of start-ups owned by women and reaching these start-ups with consultancy services. Going forward, with a view to mainstreaming women's entrepreneurship in national policies, the government could also ensure that women-owned enterprises are adequately represented in all incentives and programmes within the scope of the SME Support Law.

Business linkages in Viet Nam

Viet Nam is highly integrated into global value chains (GVCs), but mostly in low value added and assembly activities

As noted earlier, Viet Nam's growth model has been based on FDI attraction and export promotion. One of the outcomes of this approach is that Viet Nam has integrated into GVCs mostly in a backward position, i.e. importing intermediate inputs which are assembled domestically and then exported. The resulting low domestic content in national exports suggests the country is not fully reaping the potential knowledge spillovers from the local presence of FDI, which would entail closer buyer-supplier relationships between multinational enterprises (MNEs) and local SMEs.

Different firm-level and contextual factors explain limited business linkages between MNEs and local SMEs

A number of constraints are limiting the development of business linkages between Viet Nam-based MNEs and local SMEs. At the firm level, very few domestic firms have international standard certifications; the cost of producing intermediate inputs locally is often higher than the cost of importing them due to low economies of scale; local small companies have limited innovation capability; and many firms face language barriers in communicating with MNEs. Other framework conditions, such as cumbersome regulations and logistics constraints (e.g. poor efficiency in custom clearance and weak infrastructure quality), also affect the ability of local SMEs to move up the value chain.

The current "Supporting Industry" (SI) policy is well-intended but has some limitations

The Vietnamese government has adopted the term "supporting industries" (SI) to define industries manufacturing materials, accessories, components and spare parts used for assembling finished goods. The most recent programme to support SIs focuses on six main sectors (i.e. textiles and apparel; footwear and leather; electronics; automobile; metal/machine tools; and high-tech industry) and provides for a range of measures to address the lack of competitive local suppliers in the country. The programme is well-intended, but it could be improved in some aspects. First, budget resources dedicated to the programme are relatively thin and mostly limited to tax incentives and subsidised loans; other typical supplier development activities, such as training and capacity building, are less a part of this policy. Second, the definition of SI is perhaps too rigid and highly skewed towards manufacturing, whereas the services sector can also perform an important "supporting" function towards exporting industries. Third, existing incentives could be extended to second-tier suppliers, with a view to building more locally integrated value chains. Finally, there is room for improvement in the monitoring and evaluation of the SI policy and in the co-ordination of this policy with other relevant government programmes for potential domestic suppliers.

A more integrated approach to building vertically-integrated supply chains is needed

Going forward, to build stronger MNE-SME linkages, it would be important to undertake programmes to enhance workforce and managerial skills and strengthen compliance with international technical standards at the firm level; encourage supportive research from universities; and ease the search process for MNEs in locating "qualified" and "verified" domestic suppliers. The basic conditions for the success of these initiatives would be the active involvement of foreign investors, the commitment of domestic suppliers, and an active co-ordinating role of the government.

A more integrated approach would also focus on making improvements in business environment conditions and basic infrastructure, including: a) improving contract enforcement and border procedures; b) upgrading the transport system and developing a mobility strategy within the main economic centres; c) improving logistical support services, such as storage, warehousing and cargo handling; d) building an efficient credit system geared towards supply chain finance and long-term credit; e) developing the national innovation system with a view to improving the innovation capacities of local suppliers; f) setting up institutions offering specialised services to SIs, such as testing labs and certification agencies; and g) involving universities and vocational colleges in building up the technical and soft skills needed in GVCs.

Business development services in Viet Nam

The role of the Assistance Centres for SMEs (TAC Centres) should be strengthened

Business development services (BDS) are non-financial services (mostly, training, advice and mentoring) aiming to improve the performance of enterprises in terms of access to and ability to compete in domestic or international markets. As such, the main goal of BDS is to improve managerial skills and thereby enhance the productivity of SMEs. The Agency for Enterprise Development (AED) is the main entity responsible for BDS policies in Viet Nam, although some provinces are also active in this area. In particular, the AED manages three Assistance Centres for SMEs that are commonly known as TAC (from the previous name of Technical Assistance Centres) and which are located in the three main cities of Ha Noi (North), Da Nang (Centre) and Ho Chi Minh City (South).

The TAC centres were established in 2003 with support from the Japanese government, which is reflected in their focus on operational efficiency as the main channel to strengthen enterprise productivity. This is demonstrated, for example, by the Productivity Improvement Programmes (PIP) that have reached about 20 000 SMEs in the past 15 years. Nonetheless, the small number of TAC centres means that their geographical reach is limited, as there is strong evidence that the use of BDS diminishes with distance from the place where it is delivered. The TAC centres play an important role for SME development and should be strengthened, for example by giving additional resources to the existing centres, by establishing a few more centres to extend their geographical coverage, or by making use of virtual or mobile mechanisms to expand services provision in more peripheral regions.

The AED should also aim to stimulate the rise of a private market for BDS

In addition to providing BDS directly, the AED could also foster the rise of a private market for BDS, notably by covering part of the costs of private-sector BDS organisations so that local SMEs can better afford their services, again with a priority on less central provinces. The recent policy initiative to establish a network of consultants, combined with the announcement of a subsidy scheme to promote the use of consultancy services by SMEs, should stimulate a rise in the supply of private providers. Complementary to this policy, it would also be important to monitor the take-up and quality of the BDS offer across the country, for example through periodical surveys of both enterprise clients and BDS organisations.

Business representative organisations are involved in the offer of BDS, but outreach is often an issue

Business representative organisations, such as SME associations, are also involved in the provision of BDS, especially management training, but the offer is again mostly concentrated in the main cities. The AED could leverage the local presence of business representative organisations to prop up the demand for BDS at provincial level, for example by partially or fully covering training costs or still by fostering their greater involvement in programmes delivered by the TAC centres.

Some provinces could benefit from central government assistance to develop SME support programmes

Viet Nam's provinces are also given the responsibility to design SME support programmes. However, only a small percentage of the 63 provinces have a dedicated budget for SME policies and less than half have developed SME support projects in compliance with the SME Support Law. As a strong point, there are about 20 SME support centres at the provincial level under the responsibility of either the provincial People's Committees or the provincial Departments of Planning and Investment. The AED could deliver a programme to enhance the capacity of provincial policy makers to design SME support measures and could facilitate the sharing of good practices across provinces.

Implementing a co-ordination mechanism would promote a more integrated approach to BDS delivery

The delivery of BDS is dispersed across many public and private organisations, leading to a potentially fragmented approach with overlaps and gaps in service offerings. The AED could seek to establish a mechanism for greater inter-institutional co-ordination in the provision of quality BDS, building on lessons learned from the "comprehensive BDS support system" pilot project in Ha Noi and Ho Chi Minh City to replicate in other regions of Viet Nam.

Main recommendations to strengthen SME and entrepreneurship policy in Viet Nam

Business environment for SMEs and entrepreneurship

- Continue to simplify business regulations, including through stronger use of digital technologies, in areas where this is most needed, such as tax payment and insolvency procedures.
- Move forward with the current plan to enforce a preferential corporate tax regime for SMEs, in particular the legal provisions introducing lower tax rates for micro and small companies.
- Consider the introduction of another presumptive tax regime for household businesses and own-account workers with the aim to encourage their formalisation.
- Support access to finance for SMEs by increasing competition in the credit market, for example by legislating new types of lenders (e.g. credit co-operatives and fin-tech organisations) and by scaling up the use of credit guarantees.
- Foster collaboration between TVET institutes and employers not only through the existing tax incentives but also by involving employers more closely in the design and implementation of training courses.
- Strengthen the innovation legal framework through better enforcement of the Intellectual Property Rights Law and adjustments to the Science & Technology Enterprise Law.

Governance of SME and entrepreneurship policy

- Draft a new SME Development Plan which incorporates all relevant policy initiatives of state ministries and agencies, including those not specifically covered by the SME Support Law.
- Revamp the SME Development Promotion Council and expand its mandate to play a stronger inter-ministerial co-ordination role. In this context, provide adequate resources to the Agency for Enterprise Development to play its role of Secretariat to the Council.
- Strengthen SME policy planning capacities in provinces that have not yet developed a local SME Development Plan by leveraging on the expertise of the Agency for Enterprise Development.
- Undertake formal impact evaluation research, at least for the largest government SME programmes, to better assess the impact of these interventions on the expected beneficiaries.

SME and entrepreneurship support programmes

- Undertake an in-depth assessment of the SME Development Fund (SMEDF) and the Credit Guarantee Fund (GCF), inclusive of questionnaires to SMEs and partnering banks, to single out the main causes behind their low use.
- Decrease the coverage rate of the CGF from 100% to about 80% to promote risk-sharing with partnering banks, and increase the annual premium fee for the credit guarantee from 0.5% to 1-2% (of the total guaranteed loan and interest) in order to promote sustainability of the Fund.
- Improve the working of the domestic junior equity market (UPCoM) by strengthening investor protection and increasing capital requirements for firms trading in this market.
- Complement supply-led programmes supporting R&D and technology-based enterprises with interventions, such as innovation vouchers, that aim to improve the innovation capacity of SMEs through skills upgrading and ICT adoption.
- Develop an export-readiness training programme targeting potential and novice SME exporters.
- Initiate a wide-scale intervention to orient SMEs in the use of e-commerce as an export trade channel.

- Develop a strategy to support SMEs through public procurement by setting targets for the share of public procurement contracts to be awarded to SMEs, establishing set-asides, encouraging state-owned enterprises to procure from SMEs, and developing a database to track the allocation of government contracts to SMEs.
- Support more generously within-company training with a view to enhancing the average labour productivity of SME workforces; for example, by implementing a demand-driven programme aimed at the upgrading of workforce skills in SMEs.
- Facilitate the involvement of multinational enterprises in SME workforce training programmes to enable the transfer of international standards, management practices and technology, and to align with the policy target of linking local SMEs to global value chains.
- Ensure that women-owned businesses are adequately represented in all government SME and entrepreneurship programmes, including those under the framework of the SME Support Law.

Business linkages

- Increase flexibility in the criteria for identifying “supporting industry” products to account for changes in industries and global value chains, expand the list to include key value chain services, and extend incentives beyond first-tier suppliers.
- Introduce, in close collaboration with Viet Nam-based multinational enterprises (MNEs), supplier development programmes aiming to build up the capacity of SMEs to meet the international standards requirements of MNEs.
- Enhance the existing supplier database to facilitate linkages between MNEs and local suppliers, including by posting it online and introducing quality assessments of local suppliers.
- Implement supply chain finance mechanisms to smoothen commercial transactions between local domestic suppliers and MNE clients.
- Enhance compliance of domestic suppliers with international codes of conduct addressing labour and environmental standards.

Business development services

- Consider establishing new Assistance Centres for SMEs to ease access to government-supported BDS by SMEs located away from the current three centres. Alternatively, build up and expand the capacity of the existing centres to reach more peripheral locations, for example through mobile training units.
- Encourage the rise of a private market for BDS by covering part of the training or consulting costs faced by SMEs, while also controlling and ensuring the good quality of publicly-subsidised, private-sector BDS.

2 SME and entrepreneurship characteristics and performance in Viet Nam

This chapter provides an overview of the main characteristics of SMEs and entrepreneurship in Viet Nam. It starts by showing how industry, notably manufacturing, plays a major role in the national economy. SMEs account for much less of employment and value added in Viet Nam than in OECD countries, although official statistics do not take into account the large domestic informal sector. Viet Nam's average labour productivity has grown significantly in the last decade; interestingly, however, official statistics do not show major differences in productivity levels by sector and between medium and large enterprises. Business R&D spending in SMEs is limited but, based on survey data, local SMEs appear to be quite innovative, especially in product and process innovation. An assumption is, therefore, made that this innovation is mostly of a frugal nature. Finally, Viet Nam emerges as an entrepreneurial economy, as shown by high business churning and high rates of high-growth firms and gazelles. This is the outcome of a fast-growing economy that generates business opportunities for both local entrepreneurs and foreign investors.

Introduction

Firm-size and sector classification

Viet Nam's legal definition of small and medium-sized enterprise (SME) follows the classification of the SME Support Law (Law 04/2017/QH14, dated 12 June 2017), which includes two criteria – the number of employees and total revenues or total capital of the business enterprise – and applies different thresholds for different sectors (Table 2.1).[1]

Table 2.1. SME classification in the SME Support Law

Size classification	Sector	
	Agriculture, forestry and fishing Industry and construction	Trade and services
Micro	Total revenue < VND 3 billion or total capital < VND 3 billion	Total revenue < VND 10 billion or total capital < VND 3 billion
	Employees ≤ 10	Employees ≤ 10
Small	Total revenue < VND 50 billion or total capital < VND 20 billion	Total revenue < VND 100 billion or total capital < VND 50 billion
	Employees 11-100	Employees 11-50
Medium	Total revenue < VND 300 billion or total capital < VND 100 billion	Total revenue < VND 300 billion or total capital < VND 100 billion
	Employees 101-200	Employees 51-100

Source: Decree 39/2018/ND-CP on Detailed Guidance on Implementation of the SME Support Law.

The government uses this definition for most of its policies and programmes. It is, therefore, important to keep this definition in mind for the policy chapters of the report, mostly from chapter 4 onwards. On the other hand, in this chapter, the firm-size classifications of the OECD Structural and Demographic Business Statistics (SDBS) database are followed to enable a comparison of Vietnamese SMEs with the OECD area and with other regional groups (e.g. other ASEAN countries).[2] Accordingly, SMEs are herein defined as companies with fewer than 250 employed people and further broken down in the following sub-groups: i) micro-enterprises: 1-9 people employed; ii) small enterprises: 10-49 people employed; iii) medium-sized enterprises: 50-249 people employed.

The chapter also undertakes an analysis by sector, looking at the broad sectors of industry (which mostly overlaps with manufacturing), services, wholesale and retail trade and construction. In the case of Viet Nam, these categories are built by matching 2-digit sub-sector numerical codes from the Viet Nam Standard Industrial Classification (VSIC)[3] to the International Standard of Industrial Classification (ISIC Revision 4) used in OECD countries.

This process of data harmonisation is applied to different databases, including the Viet Nam General Statistics Office (GSO)'s Enterprise Census, the World Bank's Enterprise Surveys and the World Management Survey. Other datasets used in this chapter include the Global Entrepreneurship Monitor (GEM)'s Adult Population Survey, the Asian Productivity Organisation (APO)'s Database, and the statistical database of the UN International Labour Organization (ILOstat).[4]

An estimate of the informal economy

The comparative analysis in this chapter is limited to the formal sector, which is a likely source of bias in the context of emerging economies such as Viet Nam where informality is widespread. The 2016 GSO Enterprise Census reported over half a million registered enterprises in Viet Nam, which employed nearly

13 million workers. However, at the end of July 2017, the number of non-farm individual business establishments totalled 5.1 million (with 8.7 million workers), vastly outnumbering the half a million registered businesses[5]. At that time, only 25.9% of individual business establishments were operating with an Enterprise Registration Certificate (ERC - *Giấy chứng nhận đăng ký doanh nghiệp*), 58.6% did not have one, and the remaining 15.5% were registered but did not receive an ERC or were not obliged to have one under national regulations (GSO, 2018, p. 55[1]). In addition, labour force survey data from 2016 show that more than 75% of own-account workers, 34.9% of employers, and 47.4% of wage workers are informal, with informal workers accounting overall for 57.2% of total non-agricultural employment.

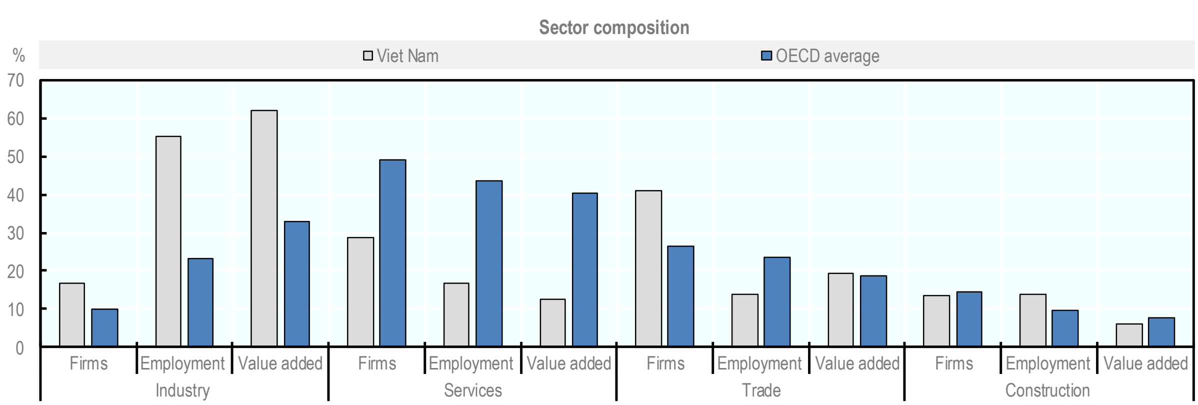
The structure of the business sector

This section compares the business economy of Viet Nam to the OECD area from a sector and firm-size perspective. The OECD definition of "business economy" excludes government, agricultural and financial sector activities to better reflect the share of the economy driven by private-sector firms.

Viet Nam is a major global manufacturing hub

From a sector perspective, Viet Nam stands out compared to the OECD area due to the main role played by industry. This has been the outcome of a rapid process of industrialisation over the last 20 years that has turned Viet Nam into a global manufacturing hub (Figure 2.1). In 2015, Viet Nam's industry sector accounted for 55% of national (formal) employment and 62% of national value added, compared with the OECD averages of 23% (employment) and 33% (value added). The services sector – which excludes wholesale and retail trade in this analysis – plays a small role in the Vietnamese economy both in terms of employment (17%) and value added (13%), which is a consequence of the prevailing role of industry, but also suggests that manufacturing-related services (e.g. logistics) have not yet sufficiently developed. Wholesale and retail trade (henceforth, trade) also accounts for a small share of national employment (14%) and value added (19%), although official statistics in this sector are particularly biased by a high rate of informality. Finally, the shares of construction in national employment (14%) and value added (6%) are relatively similar to those of the OECD area (10% and 8% respectively), which might point to some under-investment in infrastructure given the emerging status of the Vietnamese economy.

Figure 2.1. Distribution of firms, employment and value added by sector, Viet Nam and OECD, 2016



Note: Employment data for the OECD refer to people employed, for Viet Nam to employees.
Sources: OECD calculations based on GSO Enterprise Survey and OECD Structural and Demography Business Statistics (SDBS) Database.

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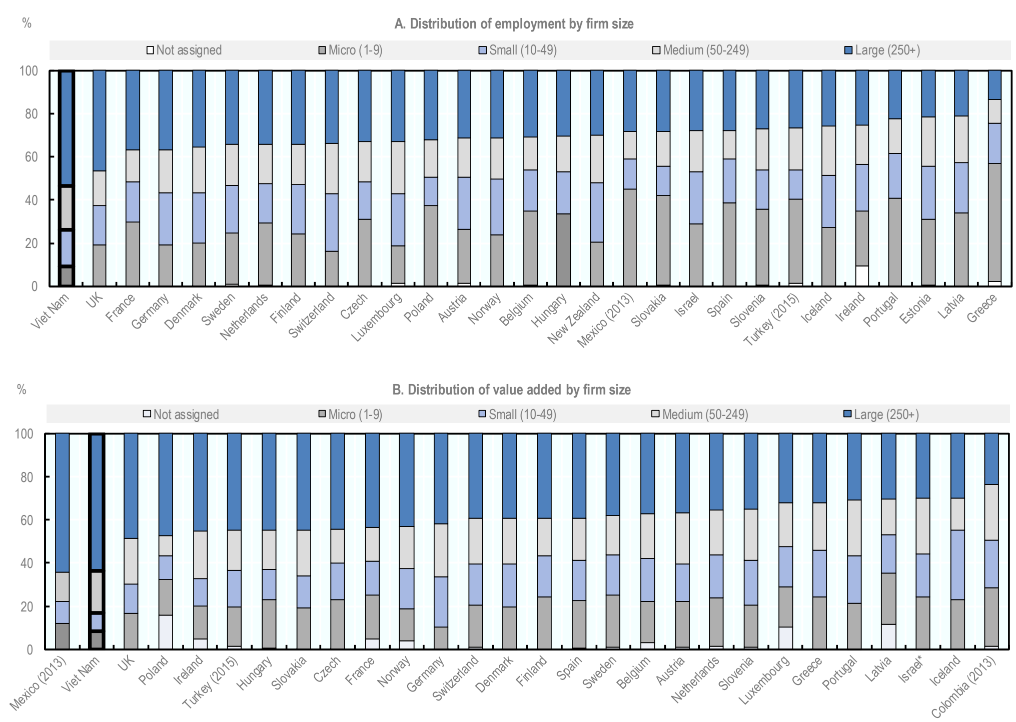
SMEs play a relatively small role in the (formal) economy

The 2016 GSO Enterprise Census reported a total number of 518 039 formal firms in Viet Nam. From a firm-size perspective, SMEs (companies with less than 250 people employed) were 96% of the total: 70% were micro-enterprises (less than 10 employees), 21% were small-sized (11-49 employees), and 5% were medium-sized (50-249 employees). Nearly one in ten businesses was a one-person-business (about 46 000 or 9% of the total), i.e. an enterprise that operates without any other worker than the owner.

While SMEs account for 96% of all businesses of Viet Nam, they employ 47% of the labour force and represent 36% of the national value added, which are values much lower than the OECD respective averages (70% and 60%) (Figure 2.2). This reflects the stage of industrial development of Viet Nam and the main role which large (industrial) companies play in it, but it is also the consequence of widespread informality which restrains the size of the visible SME sector.

It is also interesting to look at the average size of Vietnamese enterprises by sector, as this shows where SMEs are more likely to be found. In the whole business economy, the median number of employees is 5 and the mean is 25. In industry, however, median and mean values are respectively 8 and 84; the big gap between these two figures points to the vast presence of large companies in this sector. Conversely, in wholesale and retail trade, median and mean values are very close (4 and 9 employees), which means that trade-based companies are very small. Services and construction fall in between, with mean values of employees respectively of 15 and 27. Large companies in Viet Nam may reach very large scales. The top 1% largest firms account for 51% of total (formal) employment and the top 10% for 83% of total (formal) employment. Among the top 100 largest firms, 91 are found in industry.[6]

Figure 2.2. Distribution of employment and value-added by firm size in Viet Nam and across OECD countries, 2016



Note: Micro-enterprises: 1-9 people employed; small enterprises: 10-49 people employed; medium-sized enterprises: 50-249 people employed; large enterprises: 250+ people employed. Data for Viet Nam refer to employees.
Source: OECD calculations based on GSO Enterprise Census and OECD Structural and Demography Business Statistics (SDBS) database.
StatLink https://doi.org/10.1787/888934224334

Labour productivity: levels and recent trends

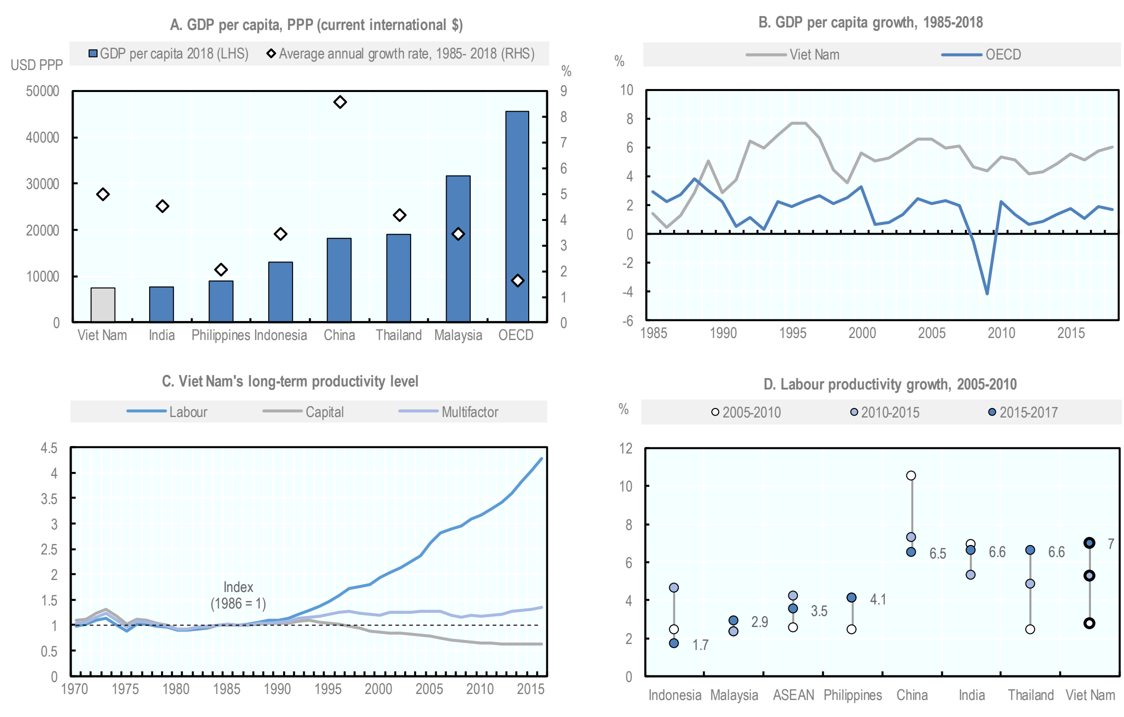
Viet Nam's GDP per capita is about one-fifth of the OECD average

Based on 2018 data, Viet Nam's GDP per capita was about 16% of the OECD average (USD 7 450 vs. USD 45 600) and relatively similar to those of other emerging economies such as India and the Philippines. Viet Nam has experienced a rapid process of economic convergence since the mid-1980s, when it first introduced free-market reforms through the 1986 *Đổi Mới* reform. Since then, annual growth in GDP per capita has averaged 5%, compared to the OECD average of 1.6%, with growth rates that have constantly exceeded those of the OECD area since 1989 (Figure 2.3, Panel A and Panel B).

Viet Nam has experienced a rapid process of convergence in labour productivity in the last 15 years

Viet Nam's labour productivity (measured as output per person employed) has quadrupled since the reforms of the mid-1980s, whereas growth in capital productivity and multifactor productivity has been more subdued (Figure 2.3, Panel C).[7] Productivity has gained strength especially in the 2010s, with growth in labour productivity averaging 2.8% in the 2005-2010 period, 5.3% in the 2010-2015 period, and 7% in the 2015-2017 period (Figure 2.3 Panel D). In this last period, Viet Nam's growth rate in labour productivity doubled the ASEAN average (3.5%) and was higher than other emerging economies such as China, India and Thailand.

Figure 2.3. GDP per capita and labour productivity in Viet Nam: current levels and recent trends



Note: Labour productivity is measured as output per person employed.
Sources: Panels A and B: World Bank's World Development Indicators. Panels C and D: Asian Productivity Organisation (APO) Database

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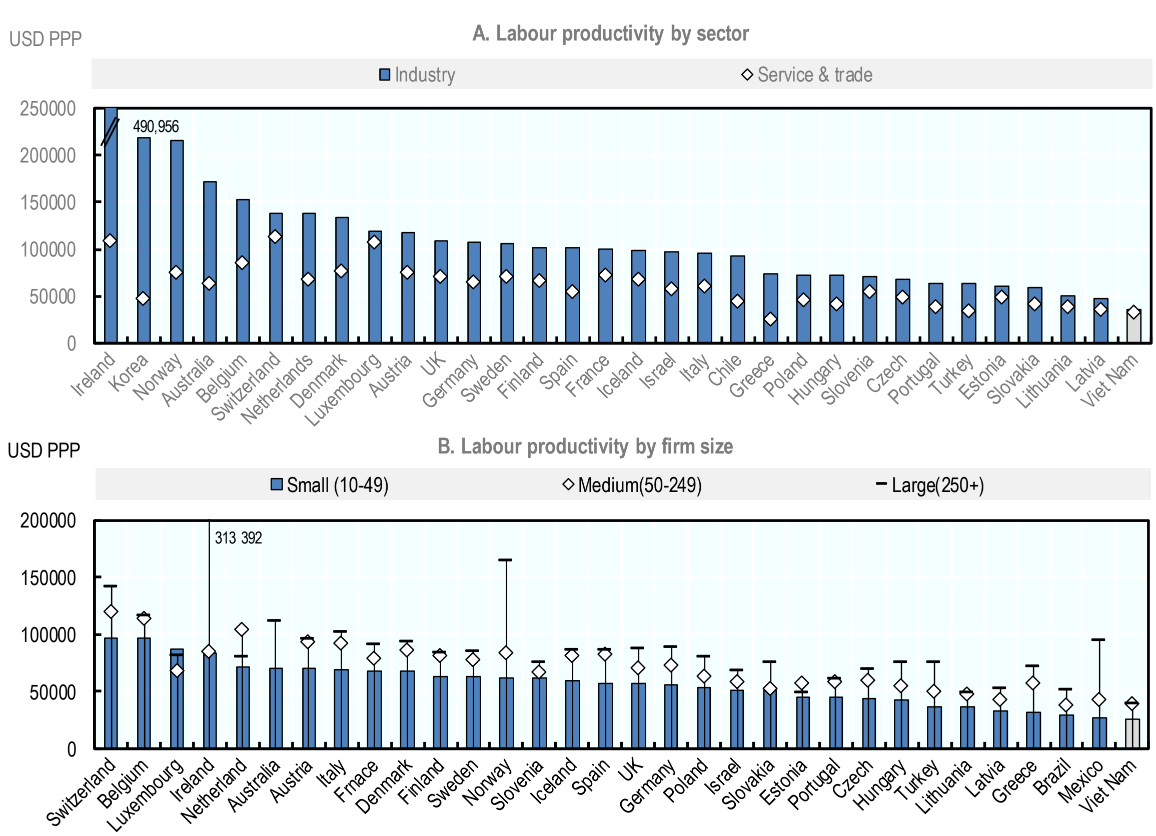
Viet Nam's labour productivity levels do not differ significantly by sector and between mid-sized and large companies

At the sector level, Viet Nam's average labour productivity (measured as value added per person employed) is similar in industry and services: USD 35 000 vs. USD 33 000 (Figure 2.4, Panel A). In industry, labour productivity is about one-third of the OECD median value (USD 110 000), while in services it is about half (USD 60 000). However, in services, which includes wholesale and retail trade, a large degree of informality is likely to inflate average labour productivity by artificially lowering the official number of employed workers.

Labour productivity levels are also very similar between mid-sized (50-249 employees) and large companies (250+ employees), while the gap is more pronounced with small companies (10-49 employees) (Figure 2.4, Panel B). One of the reasons could be that mid-sized companies, which are often foreign-owned suppliers in Viet Nam, have productivity levels that are not too dissimilar from those of their larger buyers.

Figure 2.4. Labour productivity levels by sector and firm size, Viet Nam and OECD countries, 2016



Note: Labour productivity is measured as value added (at basic prices or factor cost) per person employed (per employee in the case of Viet Nam). Local currency values are converted to USD at Purchasing Power Parity (PPP) for GDP. Micro enterprises (1-9 employees) are omitted from the graph because these companies are much more likely to use informal workers, leading to unreliable labour productivity estimates. According to Viet Nam's labour force survey of 2016, informal workers accounted for 57.2% of total non-agricultural employment.
Sources: OECD calculations based on Viet Nam's GSO Enterprise Survey and OECD (2019[2]), Compendium of Productivity Indicators, OECD Publishing.

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Enterprise productivity is affected by factors both internal (workforce and managerial skills, business networks, innovation, ICT and digitalisation) and external to the firm (market structure, technology development, levels of education). Enhancing SME productivity is important not only to sustain economic growth, but also to reduce social inequalities by increasing the income of small business workers. The second part of this report, from Chapter 5 through to Chapter 7, looks more closely at different policies and programmes that affect SME productivity.

SME performance

Innovation performance

Vietnamese SMEs are highly involved in product and process innovation, but R&D spending is limited

Based on data from the World Bank Enterprise Survey (WBES), Vietnamese SMEs appear adequately involved in innovation activities, especially compared to peers in other ASEAN countries.[8] However, a significant gap between R&D spending and innovation activities suggests that most innovation is not R&D-backed and is perhaps of a "frugal nature", that is, aimed at introducing small modifications in existing products, for example to make them accessible to a larger audience of low-income customers.

About one-quarter (22.7%) of Vietnamese SMEs (10-249 employees) undertake R&D, according to the WBES, with a median investment of VND 100 million, compared with 43.1% of large companies (250+ employees) with a median investment of VND 500 million. In addition, more than half of total SMEs (53%) have introduced at least one type of innovation, which is relatively close to the same rate for large companies (65%) (Figure 2.5).[9] Both rates of "product innovation" and "new-to-market" product innovation (a sub-category of product innovation) are particularly high among Vietnamese SMEs, respectively at 33% of total SMEs and 22% of SMEs introducing product innovations. As mentioned earlier, given that the SME median investment in R&D is only VND 100 million (i.e. about USD 4 200), product innovation has probably mostly to do with small adjustments to existing products.

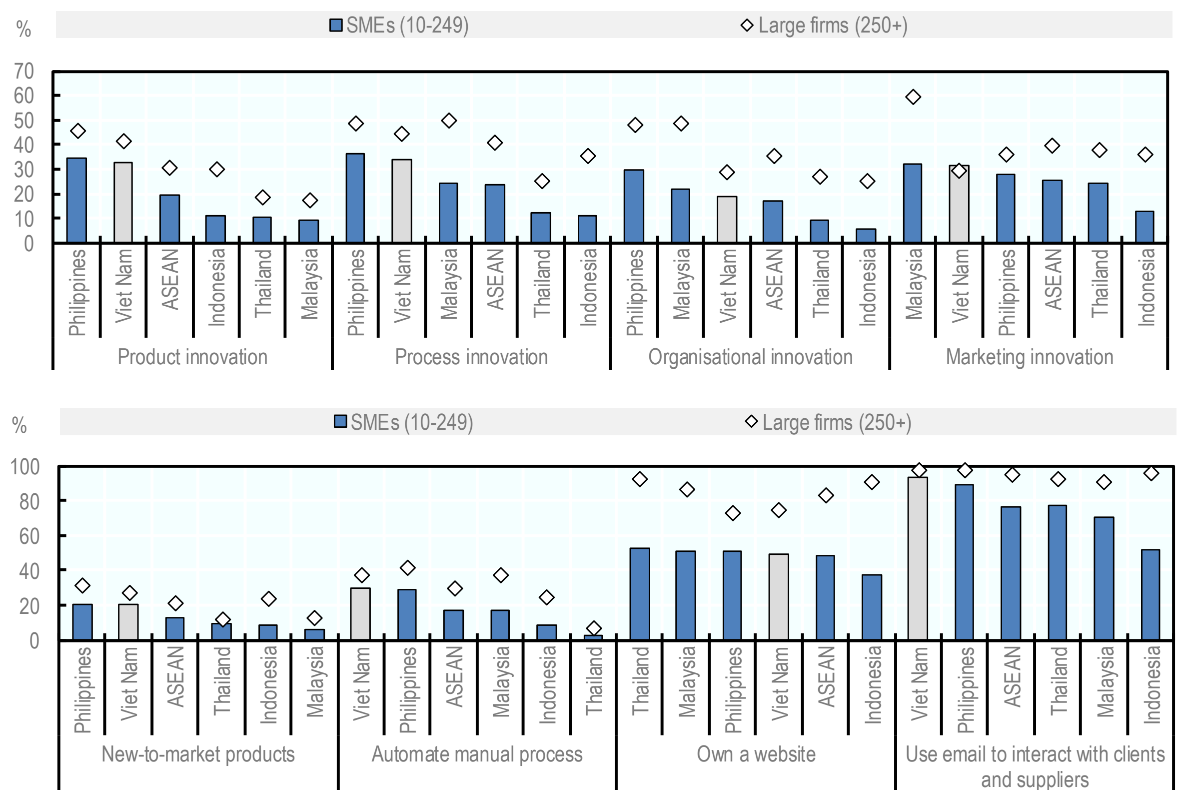
Process innovation is also common among Vietnamese SMEs. Thirty-four percent of Vietnamese SMEs have introduced new production processes, the second-highest value within the ASEAN region only behind the Philippines. The gap between SMEs and large companies in process innovation is about 10 percentage points, slightly more than for product innovation (8.7 percentage points), but less than the ASEAN average (17 percentage points).

Automation is one type of process innovation, one which is particularly important for a country like Viet Nam that is highly integrated in manufacturing global supply chains. Unsurprisingly, the rate of automation among Vietnamese SMEs (30%) is the highest in the ASEAN region. Surveys by the International Labour Organization (ILO) (2016[3]) show that automation is likely to have a strong impact in the ASEAN region, with 75% of low-skilled workers in electronics and 86% of workers in textile, clothing and footwear at risk of losing their job due to automation. Policies aimed at improving the value-chain position of SMEs, notably by strengthening their skills and innovation capacity, will therefore play a particularly important role in the near future of Viet Nam (see chapter 6 of this report).

Marketing innovation is more common than organisational innovation among Vietnamese SMEs

Viet Nam performs less well in organisational innovation, which involves the introduction of new methods in business practices, workplace organisation or the external relations of a company. This might reflect Viet Nam's stage of industrial development and, in particular, the fact that capital investment continues to be its main source of growth. Only 19% of Vietnamese SMEs have introduced organisational innovations, which is in line with the ASEAN average, although a survey of Vietnamese firms finds that innovation in business practices and workplace organisation has the potential to enhance enterprise performance also in Viet Nam (Phan, 2019[4]). On the other hand, Vietnamese SMEs have higher rates of marketing innovation (31%), even higher than large companies (29%), and half of them (50%) make use of a business website, a figure which is in line with the ASEAN average (Figure 2.5). Interestingly, however, the use of a website among large Vietnamese companies is one of the lowest in the ASEAN region, i.e. 75% compared with Thailand's 92% and Indonesia's 91%, which might reflect the fact that some of them only work for a few multinational companies in closed buyer-supplier relationships.

Figure 2.5. Share of innovative firms, Viet Nam and other ASEAN countries, 2015



Note*:* Product innovation: the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses, which includes changes in technical specifications, incorporated software or components, user friendliness or other functional characteristics. Process innovation: the implementation of a new or significantly improved production or delivery method, which includes changes in techniques, equipment and/or software. Organisational innovation: the implementation of a new organisational method in the firm's business practices, workplace organisation or external relations. Marketing innovation: the implementation of a new marketing method involving changes in product design or packaging, product placement, product promotion or pricing.
Source: OECD calculations based on World Bank Enterprise Surveys (data for Thailand is from 2016). Micro firms (1-9) are not sufficiently represented in the WBES, thus they are omitted from the graph (i.e. the WBES does not cover companies with less than 5 employees).

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Export performance

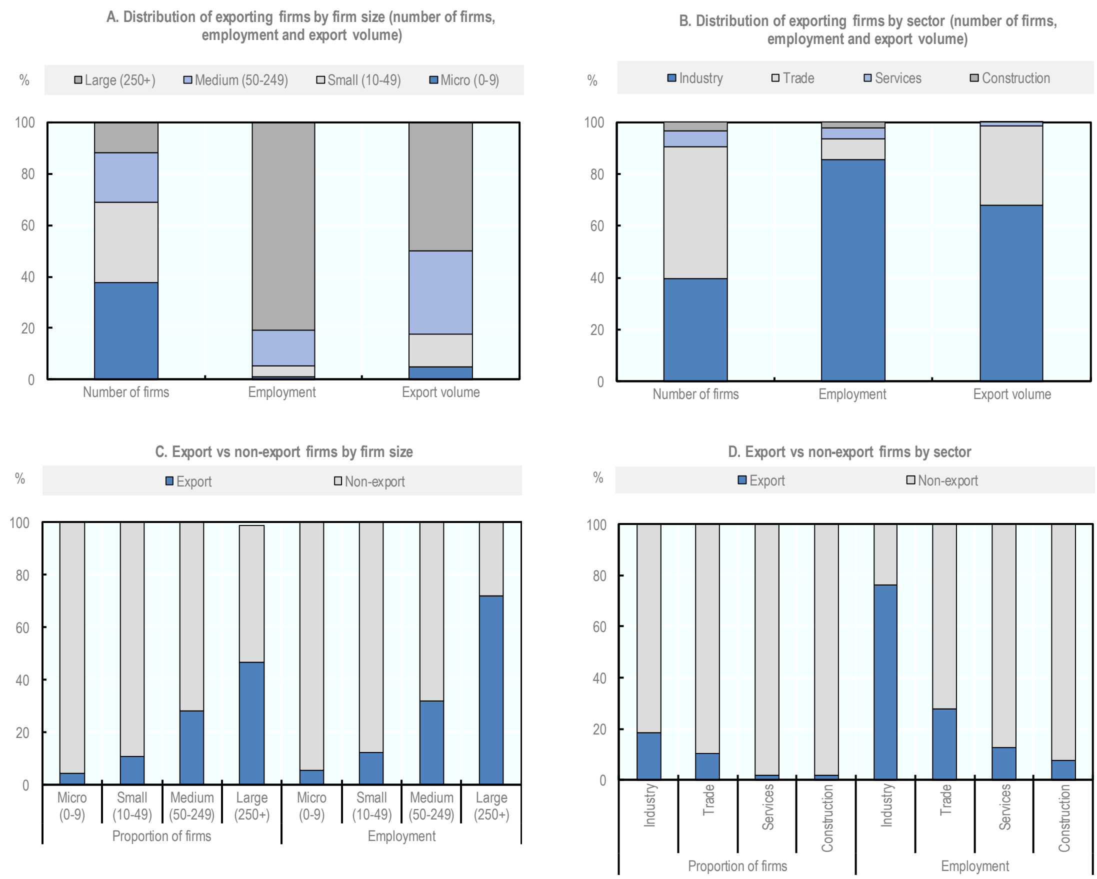
SMEs are adequately represented in export activity, but this is mostly due to foreign-owned suppliers

Based on data from the GSO Enterprise Census (2015 edition)[10], exporting companies account for 8% of the total business population (i.e. about 35 000 enterprises) and for nearly half (47%) of total employment, which indicates a large average size.[11] The comparison between the mean (162) and median (16) values of employees at exporting companies also shows that this employment is concentrated in a few large companies. SMEs (less than 250 employees) account for 88% of the total number of exporting firms, 19% of employment in exporting companies, and half of the export volume (50%) (Figure 2.6, Panel A and Panel B).[12] By way of comparison, in the OECD area, SMEs account for between 20% of export volumes in France and Germany and nearly 50% in Italy and Austria, with peaks of 67% in small open economies such as Latvia and Estonia. Viet Nam's performance is, therefore, within the OECD range in terms of SME share of export volumes. However, 70% of Viet Nam's SME export originates from foreign-owned SMEs, which have relocated to Viet Nam to be closer to multinational enterprises (MNEs) acting as their lead buyers.

Industry is the driving force of Vietnamese exports

Industry and trade account respectively for 40% and 51% of exporting companies.[13] However, industry takes the lion's share both in export-oriented employment (86%) and export volume (68%). In the case of industry, the exporting companies (about 20% of the total) account for a disproportionate share of sector employment, significantly outpacing employment in non-exporting companies (76% vs. 24%) (Figure 2.6, Panel C and Panel D), which is an outcome of most FDI in Viet Nam serving foreign markets (see also chapter 3). The main exporting activities are respectively clothing (12%), plastic products (6%) and wooden furniture (5%) in industry; transportation (15%) and computer programming (8%) in services; and wholesale of machinery (14%), chemicals (5%) and electronic equipment (4%) in trade.

Figure 2.6. An overview of exporting firms by size and sector in Viet Nam, 2015



Source: OECD calculations based on GSO Enterprise Census 2015.

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Vietnamese enterprises, including SMEs, are already highly integrated in global markets, although this mostly happens through participation in global value chains (GVCs) which allows SMEs to specialise in certain segments of the production process. Going forward, the government could consider building future export strategies on two pillars. First, SMEs which are already part of GVCs could be supported in improving their value-chain position, for example by shifting production towards the manufacturing of more complex components. This might involve general policy support in the form of workforce and managerial skills upgrading, mostly at the firm level, but also more specific interventions such as the creation of intermediate technology institutes helping SMEs to apply new technologies in the production process. Second, there is room for increasing direct exports by SMEs, thus reducing the reliance of local SMEs on single global buyers. This would in turn call for a more comprehensive export policy that stimulates an export culture, offers export training opportunities and provides export finance solutions.

Managerial skills

Managerial skills in Viet Nam's mid-sized (manufacturing) firms are strong by international standards

Managerial skills are a major driver of firm-level productivity growth[14]; based on some empirical evidence, they account for about one-quarter of cross-country and within-country gaps in multifactor productivity (Bloom et al., 2014[5]). Data from the World Management Survey, which only focuses on mid- and large-sized firms in manufacturing, show that Viet Nam's manufacturing mid-sized firms do better than their peers in other emerging-market economies such as Brazil, China and India, and that the gap with OECD countries is not wide (0.27 percentage points from the simple OECD average). Interestingly, the gap in managerial skills between Viet Nam's mid-sized and large firms is much narrower than in the OECD area (0.3 vs. 2.76 percentage points). Similarly to SME export statistics, these figures are also likely to be affected by the presence of many mid-sized foreign-owned suppliers in Viet Nam. A breakdown of managerial skills into different categories shows that managers in Viet Nam perform better at talent management, perform in line with the average in operations management and target setting, and perform worse than the average in performance monitoring (Figure 2.7).

Programmes that aim to upgrade managerial skills need to take into account the sector and knowledge-intensity of participant companies. Programmes targeting low-tech small companies, for example in retail trade, should be short in duration, offer basic skills and be able to reach as many companies as possible, whereas programmes targeting larger SMEs, especially in manufacturing, should focus on more complex managerial topics such as operational efficiency (Marchese et al., 2019[6]).

Figure 2.7. Management practices in manufacturing firms, Viet Nam and selected countries

Note: Data from the World Management Survey only covers medium (50-250 employees) and large-sized (251+ employees) companies in manufacturing. Country data are from 2004-2014 combined surveys. Scores range from 1 (worst) to 5 (best).
Source: OECD calculations based on World Management Survey.

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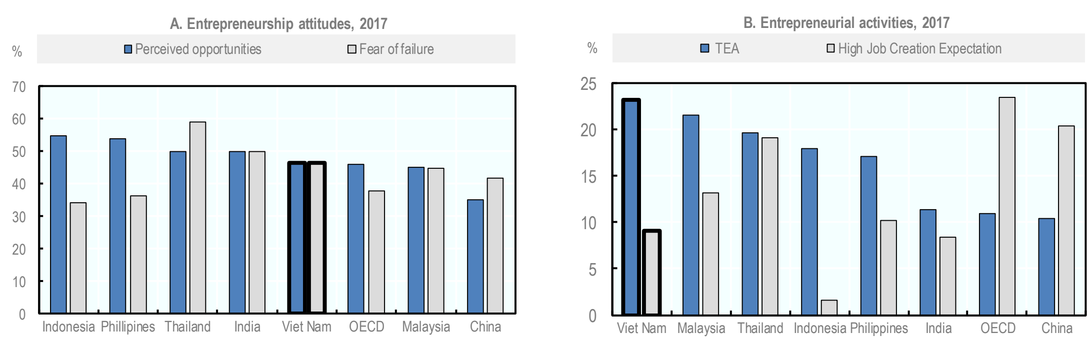
Entrepreneurial attitudes and entrepreneurial dynamics

Entrepreneurial attitudes

Attitudes towards growth-oriented entrepreneurship are still undeveloped

Based on 2017 data from the Global Entrepreneurship Monitor (GEM) research consortium[15], nearly half (46.4%) of the Vietnamese adult population perceives good opportunities to start a business in the area where they live, which is similar to the simple OECD average (45.9%), but lower than in most other countries in Southeast Asia. However, the "fear of failure" rate – the share of the adult population perceiving a "good opportunity" in the local market but indicating that a fear of failure would prevent them from seizing such an opportunity – is higher in Viet Nam (46.6%) than the OECD average (37.9%) and most countries in the region, except for Thailand (58.9%) and India (50.1%) (Figure 2.8, Panel A).

Figure 2.8. Entrepreneurial attitudes and activities in Viet Nam and selected countries, 2017



Note: Perceived opportunities: Percentage of total adult population (aged 18-64) who see good opportunities to start a business in the area where they live. Fear of failure: Percentage of total adult population (aged 18-64) with positive perceived opportunities who indicate that fear of failure would prevent them from setting up a business. The Total Early-stage Entrepreneurial Activity (TEA) rate provides estimates of the proportion of the adult population (aged 18-64) who have either been involved in a start-up for less than three months (i.e. nascent entrepreneurs), or who have been business owners for less than three-and-a-half years (i.e. new business owners). The High Job Creation Expectation rate gives the percentage of those involved in TEA who expect to create 6 or more jobs in 5 years. Data for Thailand, Indonesia, China and India are from 2018; for Viet Nam and Malaysia from 2017; for the Philippines from 2015. The OECD value is the simple average of the GEM values of the 31 OECD countries for which there is recent information (2016-2018).
Source: OECD calculations based on Global Entrepreneurship Monitor (GEM) database.

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GEM's Total Entrepreneurial Activity (TEA) rate measures the share of the adult population involved in an entrepreneurial activity, either as a nascent entrepreneur or as a new business owner. Viet Nam's TEA rate was 23.3% in 2017, the highest in the region and more than twice the OECD average (10.9%). However, Viet Nam's TEA rate with high job creation expectations – i.e. those early-stage entrepreneurs who expect to create 6 or more jobs in the following 5 years – was 9.1%, less than most ASEAN countries and far lower than the OECD average (23.5%) (Figure 2.8, Panel B). This figure, however, contrasts with the high rates of high-growth firms and gazelles in Viet Nam (see below), both of which come from national enterprise surveys and deal with actual business growth rather than business growth expectations.

Business ownership and entrepreneurial dynamics

Viet Nam's self-employment rate is exceptionally high

Viet Nam's self-employment rate, i.e. the proportion of employers and own-account workers in total employment, is exceptionally high by international standards. In 2019, 56% of the total workforce was self-employed, 30 percentage points below the peaks of the early 1990s, but still remarkably higher than the OECD level (15%) (Figure 2.9, Panels A and B). While self-employment denotes an entrepreneurial spirit, exceptionally high self-employment rates also point to lack of other job opportunities in the labour market. Contrary to most other countries, Viet Nam's female self-employment rate (61%) is higher than the male rate (51%),[16] which is in line with other main labour market indicators (e.g. participation rate and employment rate) and is the result of longstanding government policies to promote gender equality in education and the workplace.

There is significant business churning in Viet Nam

Widespread business ownership implies that business creation and business destruction are also common in Viet Nam. In 2016, Viet Nam's enterprise birth (entry) and death (exit) rates were respectively 23% and 15.3%, both much higher than the OECD median values (10.4% and 8.7%) (Figure 2.9, Panel E). Enterprise birth rates have been constantly higher than death rates in recent years, leading to a doubling in the total stock of active companies between 2010 and 2017 (Figure 2.9, Panel C). Overall, these figures suggest that business creation in Viet Nam is easy, but business survival is not.

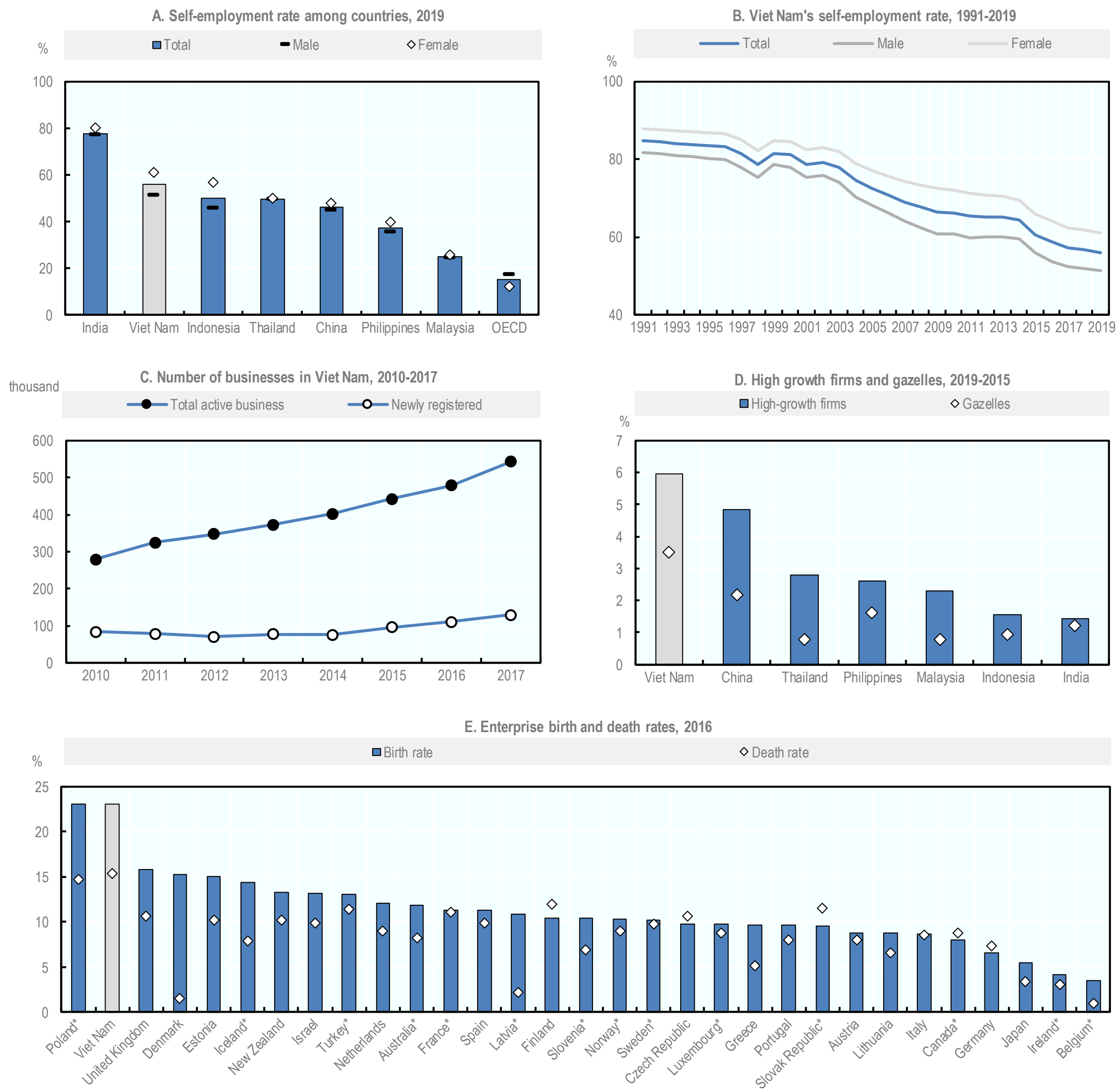
At the same time, data from the World Bank Doing Business survey also show that there are more serious constraints to setting up limited partnership companies (see chapter 3), which are typically larger and more structured legal entities than sole proprietor companies.

Viet Nam has high rates of high-growth firms and gazelles, which are the result of a fast-growing economy

Finally, based on WBES data, Viet Nam shows a high rate of high-growth firms, i.e. firms which grow rapidly over a short period of time:[17] 6% compared with the regional average of 3%. Viet Nam also displays a high rate of gazelles, i.e. high-growth firms that are aged less than five years at the beginning of the observation period: 3.5% compared with the regional average of 1.6% (Figure 2.9, Panel D). These figures are the result of a fast-growing economy which creates opportunities both for foreign investors and domestic entrepreneurs.

Altogether, the high TEA rate, enterprise birth rate and rates of high-growth firms and gazelles all point out that Viet Nam is a highly entrepreneurial economy in which a large share of the population is involved in business creation.

Figure 2.9. Business ownership and entrepreneurial dynamics in Viet Nam



Note*:* High growth firms (HGF) are enterprises with average annualised growth in employment or turnover greater than 20% per year, over a three-year period, and with ten or more employees at the beginning of the observation period. HGF in this analysis is limited to measurement in employment only. Gazelles is a subset of HGFs that are aged less than five years at the beginning of the observation period. Data for China refers to 2012, Thailand to 2016, India to 2014. The equation for the HGF's three-year compounded annual growth rate is applied from Eurostat/OECD (2007[7]): Eurostat – OECD Manual on Business Demography Statistics. Self-employed workers are those workers who, working on their own account or with one or a few partners or in a co-operative, hold the type of jobs defined as a "self-employment jobs." i.e. jobs where the remuneration is directly dependent upon the profits derived from the goods and services produced. Self-employed workers include four sub-categories: employers, own-account workers, members of producers' co-operatives, and contributing family workers. Countries with (*) have data from 2015.

Source: OECD calculations based on OECD Structural and Demography Business Statistics (SDBS) and GSO's Statistical Yearbook, World Bank Enterprise Survey datasets and ILOstat.

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Conclusions and policy recommendations

This chapter has looked at the characteristics and performance of SMEs and entrepreneurship in Viet Nam from an international comparative perspective. The chapter started by showing how Viet Nam is an economy driven by industry, which accounts for 55% of total employment and 62% of national value added, both much higher values than the respective OECD averages (23% and 33%). At a first glance, SMEs play a smaller role in Viet Nam than in OECD countries, accounting for 47% of total employment and 36% of national value added. However, these figures do not take into account the large domestic informal sector in which mostly micro-enterprises operate: for example, more than three-quarters of own-account workers are estimated to be informal in Viet Nam.

Viet Nam experienced rapid growth in labour productivity in the 2010s: 5.3% in the 2010-2015 period and 7% in the 2015-2017 period. Compared to OECD countries, Viet Nam displays small differences in labour productivity levels by sector (between industry and trade) and by firm size (between medium and large enterprises).

With respect to SME performance, Vietnamese SMEs appear to be quite involved in product and process innovation, including in the adoption of automation. However, limited R&D spending suggests that most innovation is of a “frugal nature”, such as making small changes in existing products to make them more accessible to a wider customer base. SMEs are also adequately represented in export activity, representing about half of national export volumes, although most of them are foreign-owned. Survey-based results also highlight good managerial skills in Viet Nam’s manufacturing mid-sized firms.

Finally, population survey data and business statistics offer a picture of Viet Nam as a highly entrepreneurial economy. Viet Nam has a very high self-employment rate, although this might also mean a lack of other job opportunities in the labour market. Above all, Viet Nam has a high total entrepreneurial activity rate (population survey data), a high business churning rate (business birth and death rates combined) and high rates of high-growth firms and gazelles. Strong entrepreneurial dynamics are the result of a fast-growing economy which creates new business opportunities both for the local population and for foreign investors.

Based on this analysis, the following broad policy recommendations are formulated to strengthen SME and entrepreneurship performance; these suggestions are further detailed in the other thematic chapters of the report.

Policy recommendations on SME and entrepreneurship characteristics and performance

- Address the large domestic informal sector by easing business entry regulations and by creating a separate tax regime (presumptive in nature) dedicated to own-account workers and micro-enterprises.
- Support productivity growth in SMEs by helping them upgrade their workforce and managerial skills, improve their technology and digital capacity, and establish closer relationships with large international buyers.
- Encourage the scale-up of enterprises through further regulatory simplification in areas such as tax payment and enhanced access to credit and international markets

Notes

[1] The SME Support Law came into effect in January 2018 through Supplementary Decree 39/2018/ND-CP.

[2] OECD Structural and Demographic Business Statistics (SDBS - https://www.oecd.org/sdd/business-stats/structuralanddemographicbusinessstatisticssdbsoecd.htm).

[3] The sector classification is based on Viet Nam Standard Industrial Classification 2007 (VISC - https://www.gso.gov.vn/Modules/Doc_Download.aspx?DocID=8067)

[4] The data sources for this chapter are: i) the GSO Enterprise Census of 2016, which contains information for 518 039 active firms; ii) three waves (2005, 2009, 2015) of the World Bank Enterprise Surveys, each of which has data from about 1 000 firms in the case of Viet Nam (https://www.enterprisesurveys.org/en/survey-datasets); iii) World Management Survey, which has information on 151 Vietnamese firms; 34 countries surveyed (https://worldmanagementsurvey.org/survey-data/download-data/download-survey-data/); iv) two waves of GEM Adult Population Surveys for Viet Nam (2015, 2017) as well as data for six other countries in the region (https://www.gemconsortium.org/). Finally, productivity statistics are also extracted from the Asian Productivity Organisation's Database (https://www.apo-tokyo.org/wedo/measurement/).

[5] "Individual business establishments" are defined in Viet Nam as places where production/business activities are conducted, notably household businesses that are not eligible to register or have not registered according to the laws, such as the Law on Enterprises or Co-operatives Law (GSO/ILO, 2018, p. 8[8]).

[6] The largest companies reported in each sector in 2016 were: Industry – a Taiwanese-owned footwear firm with 79 231 employees; Construction – an industrial construction company with 11 873 employees; Trade – a mobile-phone distribution company with 15 467 employees; Services – a passenger transportation company with 16 151 employees. (Data from the GSO Enterprise Census).

[7] Multifactor productivity reflects the efficiency with which labour and capital are combined in the production process.

[8] This section relies on data from the World Bank Enterprise Survey (WBES), which was conducted in Viet Nam between November 2014 and April 2016 and covered 996 enterprises both in manufacturing and services. Firm-size categories in the WBES are 5-19 employees (small), 20-99 employees (medium), and 100+ employees (large). Micro data from the WBES database have been regrouped following the OECD SDBS classification: SMEs (10-249) and large (250+). It should be noted that this approach might cause a loss in the representativeness of the sample, since firm size classes may no longer fully reflect the distribution of enterprises in the total business population. Micro-enterprises have not been included in the count due to the very small number of them in the WBES sample.

[9] The WBES follows the definition of innovation of the OECD/EUROSTAT Oslo Manual, which categorises innovation in four main types: product, process, marketing, and organisational (OECD/Eurostat, 2005[9]).

[10] This section draws on data from the GSO Enterprise Census from 2015, rather than 2016, due to the availability of export statistics.

[11] Exporting companies, based on the GSO definition, are companies with a positive record of export volume at the year of the survey.

[12] Also in the case of exporting companies, employment in SMEs is likely to be underestimated due to Viet Nam's large informal sector. This may explain the significant and unusual gap in the contribution of domestic SMEs to export employment and export volume.

[13] The high percentage of exporting companies in the trade sector is predominantly due to the wholesale/distribution of machinery, chemicals and electronic equipment.

[14] This section draws on data from the World Management Survey (WMS), which only covers mid-sized (50-250 employees) and large companies (251+ employees) in manufacturing.

[15] This section draws on data from the Global Entrepreneurship Monitor (GEM) research consortium, which undertakes annual surveys of the adult population (18-64 years old) on entrepreneurial attitudes and activity.

[16] By way of comparison, in the OECD area as a whole, the male self-employment rate is 17% and the female rate is 12%.

[17] The official OECD definition of a "high-growth firm" is "a company whose employment grows at an annualised average rate of 20% over a three period, starting from a base of at least 10 employees".

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3 The business environment for SMEs and entrepreneurship in Viet Nam

This chapter looks at business environment conditions in Viet Nam. It shows that Viet Nam's rapid growth over the last 20 years has been driven by exports and FDI, especially in manufacturing. To succeed in this strategy, Viet Nam has simplified its business regulations and alleviated corporate taxation, although the role of the state in the economy is still large and hinders competition in many domestic markets. To support business growth, the government is currently considering the introduction of a preferential tax regime for SMEs. The chapter also looks at SME financing conditions, showing that state-owned banks continue to be a major source of SME lending in Viet Nam despite recent reforms in the credit market. Turning to human capital and skills, basic education is of high quality in Viet Nam, but there are signs of inequality in access to higher education and skills mismatches in the labour market. Finally, the national innovation system is still at an early stage of development, in line with the lower-middle income status of the country.

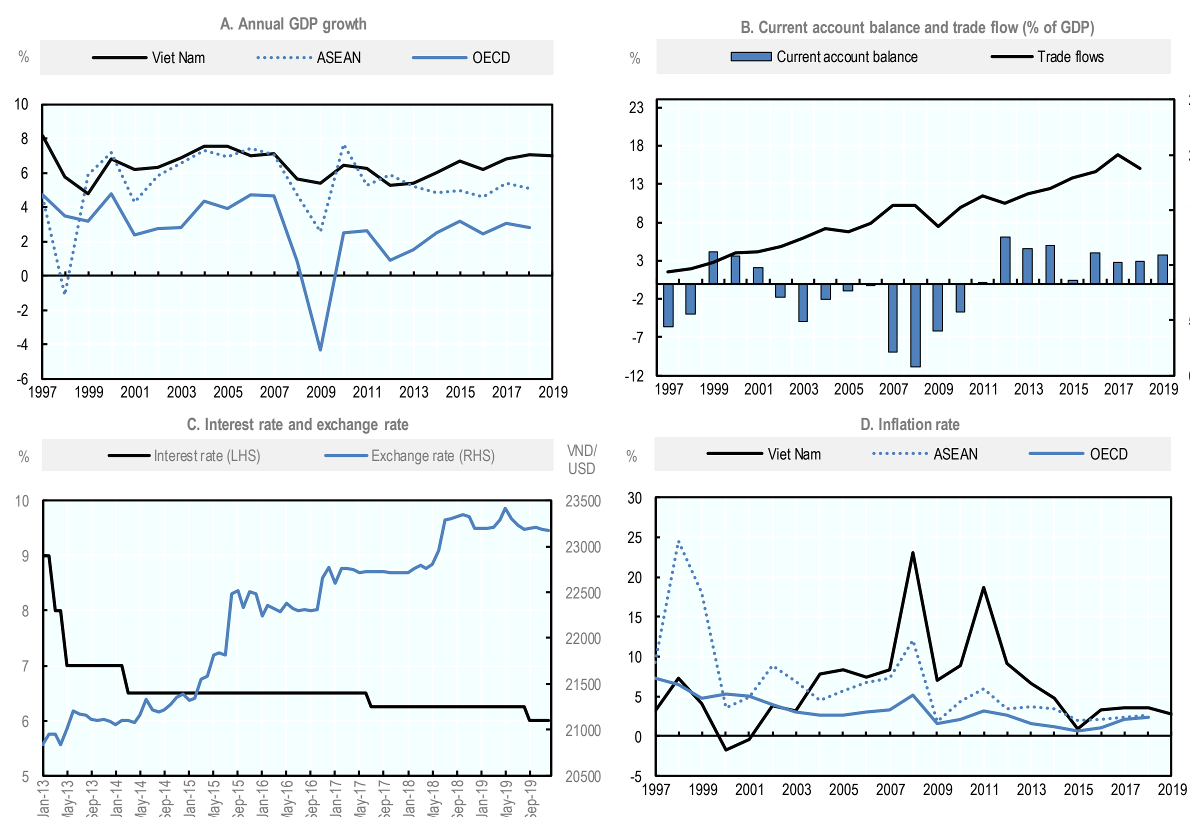
Macroeconomic conditions

Viet Nam has grown very rapidly over the last 20 years

Viet Nam's GDP has grown at a rate almost always above the ASEAN average over the last 20 years (Figure 3.1, Panel A), with GDP expected to grow at an annual average rate of 6.5% also in the coming years (OECD, 2019[8]). As noted in chapter 2, Viet Nam's rapid growth has been driven by manufacturing exports. A young population, competitively-priced and trainable labour force, a large domestic market, political stability and close proximity to major regional and global supply chains have all been factors that have favoured the rise of Viet Nam as a global manufacturing hub (Eckardt, Mishra and Dinh, 2018[9]).

The government of Viet Nam expects exports and foreign direct investment (FDI) to continue to be main the pillars of growth. In 2019, Viet Nam's total export-import volume reached USD 517 billion, while FDI posted a national record high of USD 20.4 billion. In 2017, trade flows (i.e. the sum of imports and exports) in relation to GDP reached 200% (Figure 3.1, Panel B),[1] the highest worldwide value among countries with a population of at least 50 million people (Korf, 2018[10]). In addition, the annual growth rate in manufacturing exports over the period 1990-2016 has been 13%, more than twice the world average and higher than other export powerhouses such as China (UNIDO, 2018[11]). Since 2012, thanks to its successful export promotion strategy, Viet Nam has experienced a continuous trade surplus.

Figure 3.1. A macroeconomic overview of Viet Nam



Note: Trade flows are the sum of imports and exports.
Sources: OECD calculations based on World Bank's World Development Indicators, International Finance Corporation, Viet Nam's General Statistics Office and State Bank of Viet Nam (SBV).

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Viet Nam's monetary policy supports export promotion and FDI attraction

Viet Nam's monetary policy has accommodated the export promotion and FDI attraction strategies of the government. In particular, the Central Bank (State Bank of Viet Nam, SBV) has adopted a crawling peg exchange-rate policy against the US dollar in order to keep Vietnamese exports competitive in international markets (Figure 3.1, Panel C). [2] Interest rates have also recently been lowered to encourage investment. Finally, inflation has been tamed over the last years and maintained at an average annual rate of 3% over the period 2016-2019. However, Viet Nam has also experienced inflationary peaks in a not distant past, notably in 2008 and 2011 when inflation reached respectively 23% and 18% mostly due to increases in fuel and food prices (Figure 3.1, Panel D). [3]

Viet Nam enjoys buoyant labour market conditions

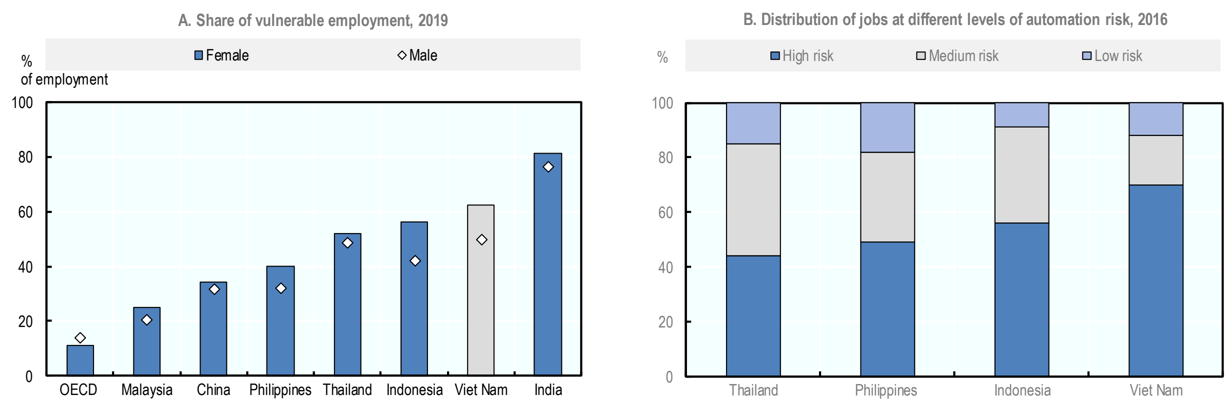
Based on the latest 2019 census, Viet Nam's population consisted of 96 million people, 10 million more than a decade ago. Population has grown at an annual rate of 1.14% over the 2010s, only marginally less than in the previous decade (1.18%), which bears witness to the average young age of the local population. The literacy rate of the adult population (aged 15+) is 95.8%: 98.3% in urban areas and 94.3% in rural areas (GSO, 2019[12]). Following this trend, Viet Nam should reach universal literacy in the next decade.

In the first quarter of 2018, Viet Nam's labour force consisted of 52.1 million people out of the 72.4 million adult population. One-third of the labour force worked as self-employed, while more than two-thirds (67.8%) was considered to be "rural". Viet Nam's unemployment rate was only 2% in 2018, much lower than the OECD average (5.3%). Similarly, Viet Nam's youth unemployment rate was 7.1%, compared to the OECD average of 11.1% (GSO, 2018[13]). Viet Nam's labour market participation rates are very high: 82.1% for males and 71.6% for females. Considering that the world's female participation rate is 48.5%, Viet Nam has one of the highest female participation rates in the labour market worldwide (ILO/ILSSA, 2018[14]). This is the result of cultural and historical factors – socialist countries have traditionally had high rates of female education and labour market participation – and of specific government policies to encourage gender equality in access to education and work. Nonetheless, women are more exposed to vulnerable employment than men (Figure 3.2, Panel A), where vulnerable employment is defined as the sum of the employment status groups of own-account workers and contributing family workers (ILO definition).

Viet Nam has many jobs exposed to the risk of automation

Another possible dimension of vulnerability is job losses due to the automation of production processes. Due to the high integration of Viet Nam in manufacturing global supply chains, 70% of jobs in Viet Nam are exposed to the risk of automation in the future (Figure 3.2, Panel B) which is more than in other ASEAN countries. Unsurprisingly, risks related to automation are higher in textiles, clothing and footwear (86% of existing jobs) and electrical and electronics (75% of existing jobs) (ILO, 2016[15]). The skills upgrading of the Vietnamese labour force is, therefore, particularly important to ensure that new more highly skilled jobs be filled when assembly jobs and other simple manual jobs eventually disappear.

Figure 3.2. Labour force vulnerability in Viet Nam



Notes: Vulnerable employment is measured in proportion to total employment.
Source: A: World Bank's World Development Indicators; B. ILO (2016[3]), *ASEAN in transformation: the future of jobs at risk of automation*, Geneva.

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Viet Nam has also made strides in improving working conditions

Working conditions have also improved in Viet Nam in recent years. In 2019, the government ratified the last two of the eight ILOs Conventions: i) Convention 98 on the *Right to Organise and Collective Bargaining*, to move away from the current prevalent situation where grassroots trade unions are controlled by management; ii) Convention 159 on *Vocational Rehabilitation and Employment for Disabled Persons*, to eliminate employment discrimination against people with disabilities. Viet Nam is estimated to lose about 3% of GDP as a result of the exclusion of persons with disabilities from the labour market.[4] On January 2020, the government issued Decree 90/2019/ND-CP to increase the Regional Minimum Wage (RMS) by 5.5%, at VND 4.42, 3.92, 3.43 and 3.07 million in the four wage-setting regions of Viet Nam.[5] This increase is lower than in the past few years when annual wage hikes had been in the range of 11-14%. This points to the government's attempts to balance the rights of workers with investment attraction and inflation control (OECD, 2019[8]).

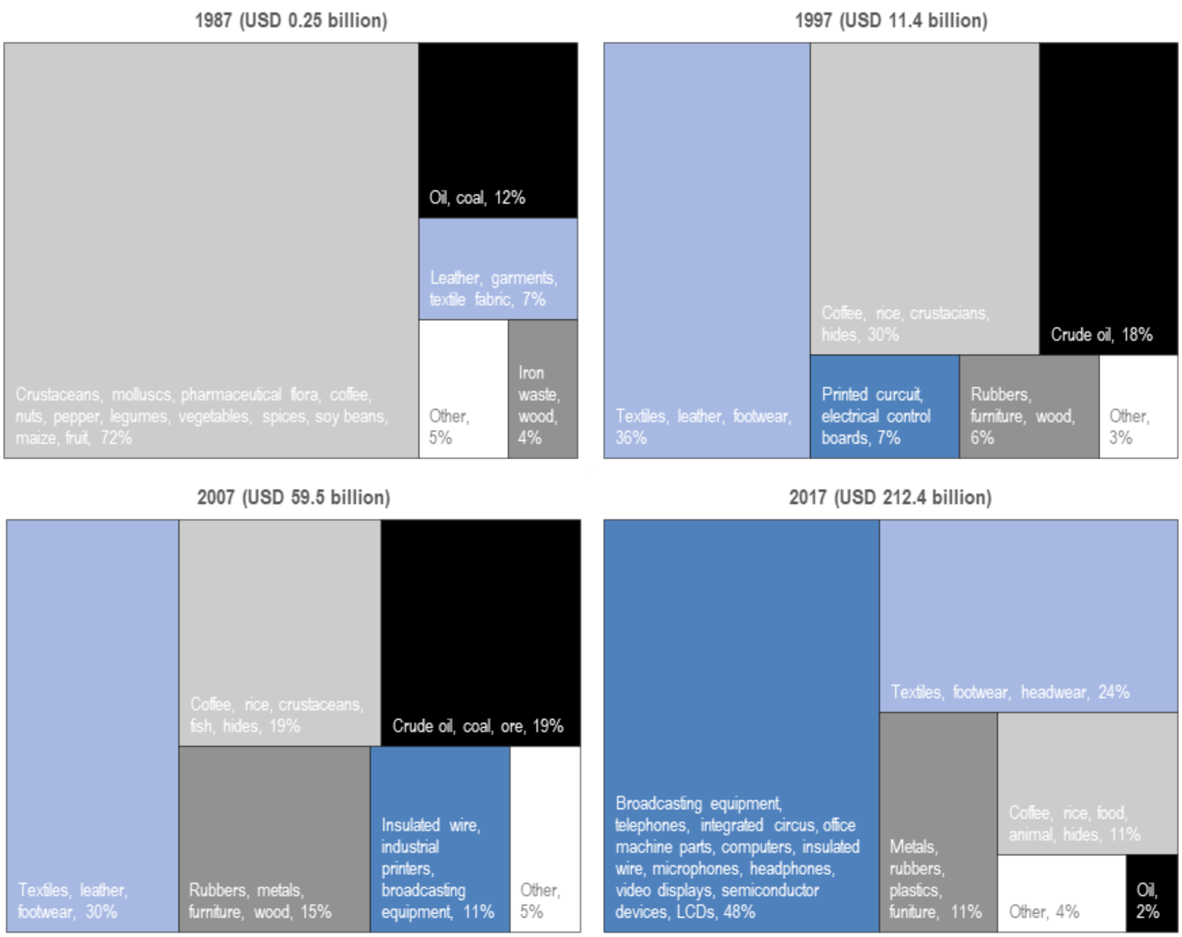
Foreign trade and foreign direct investment

Viet Nam has become an increasingly export-oriented economy in the last thirty years

Since the *Đổi Mới* reforms of 1986, Viet Nam has swiftly opened its economy to foreign trade and foreign direct investment (FDI). In addition to joining the Association of Southeast Asian Nations (ASEAN) in 1995 and the World Trade Organisation (WTO) in 2007, Viet Nam has signed many bilateral investment treaties and free trade agreements (FTAs) with the major world economies, such as the Viet Nam-United States Bilateral Trade Agreement in 2000, the Viet Nam-Japan Economic Partnership Agreement (VJEPA) in 2009, the Viet Nam-Korea Free Trade Agreement (VKFTA) in 2015, the EU-Viet Nam Free Trade Agreement (EVFTA) in 2020 and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in 2018. In 2020, Viet Nam was the second largest trading partner of the EU among ASEAN countries (after Singapore) and rivalled with Singapore to be the single country with the largest number of FTAs in the region.[6]

As a result, Viet Nam's trade openness (i.e. the sum of imports and exports as a percentage of GDP) has constantly increased since the mid-1990s. By the same token, Viet Nam's share of world trade rose from 0.03% in 1988 to 1.43% in 2017.[7] At the beginning of the *Đổi Mới* economic transition in the mid-1980s, Viet Nam's export volume was a trivial USD 0.25 billion and mostly consisted of seafood and agricultural produce. After joining ASEAN in 1995 and through the 1997-98 Asian financial crisis, Viet Nam started to develop a light manufacturing industry, focusing on textiles and garments mostly to serve Asia-Pacific trade partners (e.g. Japan, China, Australia and Singapore). Upon membership of the WTO in 2007, Viet Nam started having a more diversified basket of export products, which included oil, textiles, footwear and electronics. By that time, the United States had become Viet Nam's largest trading partner. By 2017, Viet Nam's exports had reached USD 212 billion: nearly half in electronics (telephones, broadcasting equipment, integrated circuits, computers), but the garment industry was also still very important. Major recent trading partners have been the United States, China, Japan, and Korea (Figure 3.3).

Figure 3.3. Evolution of Viet Nam's exports since the Đổi Mới reforms, 1987-2017



Note: Export volume in current US dollar in parentheses.
Source: MIT's Observatory of Economic Complexity (https://oec.world/en/visualize/tree_map/hs92/export/vnm/all/show/2017/) and World Bank's World Integrated Trade Solution (https://wits.worldbank.org/CountryProfile/en/Country/VNM/Year/2016/TradeFlow/Export)

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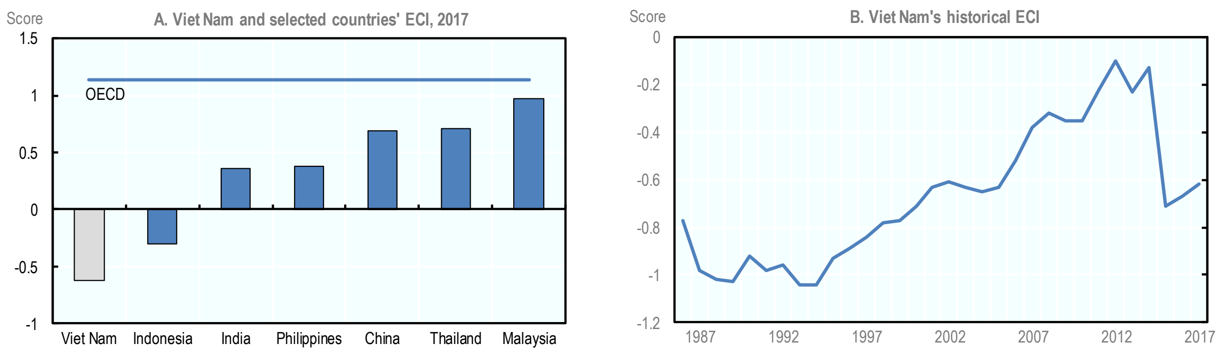
While Viet Nam's export volume has been constantly on the rise, the knowledge intensity of its exports is still low. The Economic Complexity Index (ECI) gauges the heterogeneity and ubiquity (i.e. how many other countries export the same products that a given country exports) of national exports and can be taken as a measure of the knowledge intensity and competitiveness of a national economy (Hidalgo and Hausmann, 2009[16]). Countries will rank at the top of the ECI if they can export many products that a few countries can produce, while countries at the bottom of the ranking will tend to export a few products that many countries can produce. Viet Nam's ECI is still lower than that of other ASEAN countries and much lower than the OECD average, although it has increased gradually since the *Đổi Mới* reforms, with the exception of in more recent years (Figure 3.4). A structural shift towards the production of more complex products that fewer countries can produce would be the most natural way for Viet Nam to capture more value from its exports.

Figure 3.4. Economic Complexity Index of Viet Nam and selected countries



Note: The Economic Complexity Index (ECI) is a measure of the productive capabilities of large economic systems such as countries. The ECI explains the knowledge accumulated in a population and expressed in economic activities. Since the ECI considers information on the diversity of countries and the ubiquity of products, it is able to produce a measure of economic complexity containing information about both the diversity of a country's export and their sophistication. For example, countries with a high ECI export many goods that are of low ubiquity and that are produced by highly diversified countries, indicating that these are diverse and sophisticated economies. Countries with a low ECI export only a few products, which are of relatively high ubiquity and which are exported by countries that are not necessarily very diversified, indicating that these countries are not diversified and that exports are not very sophisticated. The Country Complexity Ranking is based on countries' ECI in a given year. The range of ECI for 2017 is from -2.01 to 2.31.
Source: Observatory of Economic Complexity, Massachusetts Institute of Technology.

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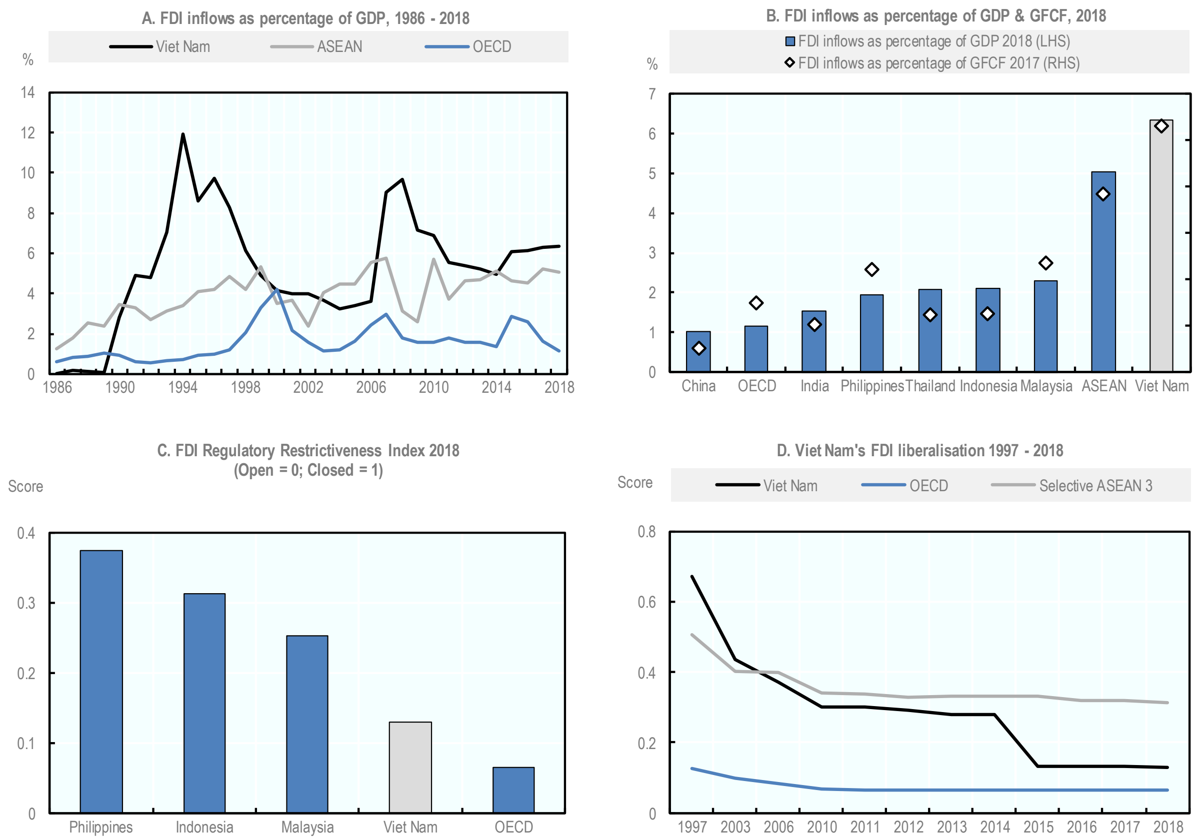
Foreign Direct Investment (FDI) has been a major driver of Viet Nam's growth

Closely related to Viet Nam's exports is its performance in FDI attraction: in 2018, foreign-owned companies, indeed, accounted for 70% of Vietnamese exports (OECD, 2018[17]). Viet Nam's FDI inflows (mostly Greenfield investments) relative to GDP are the highest among ASEAN countries (Figure 3.5, Panels A and B). Over half of the FDI stock is in manufacturing, while one-quarter is in real estate (OECD/ERIA, 2018[18]). Viet Nam's largest foreign investors are Korea, Japan, Singapore, and Taiwan.

Based on information from the OECD FDI Regulatory Restrictiveness Index, Viet Nam is more open to FDI than other large ASEAN economies. Two decades ago, Viet Nam had more FDI restrictions than the average of large ASEAN countries (Indonesia, Malaysia and the Philippines), but it converged rapidly towards this group and is now approaching the OECD level (Figure 3.5, Panels C and D). Among the 42 sectors surveyed by the OECD, those with the fewest regulatory restrictions (below or equal to 0.02) in Viet Nam are mostly energy, construction and engineering, while those with the most restrictions (above or equal to 0.3) are media and telecommunications (Table 3.1).

Figure 3.5. FDI inflows and FDI regulatory restrictiveness in Viet Nam and selected countries



Note: Panel B: GFCF (Gross Fixed Capital Formation). Panels C & D: The analysis considers Malaysia, Indonesia, the Philippines, Viet Nam as the four ASEAN countries with complete data. The index for selected ASEAN 3 is the average of Malaysia, Indonesia and the Philippines.
Source: Panels A & B: OECD calculations based on UNCTADstat (https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx); Panels C & D: OECD FDI Regulatory Restrictiveness Index 2018.

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Table 3.1. OECD FDI Regulatory Restrictiveness Index by sectors, Viet Nam 2018

Primary	0.061	Electricity distribution	0	Fixed telecoms	0.583
Agriculture & Forestry	0.103	Construction	0.02	Mobile telecoms	0.583
Agriculture	0.083	Tertiary	0.225	Financial services	0.118
Forestry	0.123	Distribution	0.126	Banking	0.27
Fisheries	0.02	Wholesale	0.045	Insurance	0.02
Mining & Quarrying	0.02	Retail	0.208	Other finance	0.064
Secondary	0.022	Transport	0.528	Business services	0.051
Manufacturing	0.025	Surface	0.351	Legal	0.083
Food and other	0.045	Maritime	0.658	Accounting & audit	0.083
Oil ref. & Chemicals	0.02	Air	0.576	Architectural	0.02
Metals, machinery & other minerals	0.02	Hotels & restaurants	0.058	Engineering	0.02
Electric, Electronics & o. instruments	0.02	Media	0.408	Real estate investment	0.237
Transport equipment	0.02	Radio & TV broadcasting	0.345		
Electricity	0.01	Other media	0.47		
Electricity generation	0.02	Communications	0.583		

Note: The index ranges from 0 to 1, with 0 the most open and 1 the most closed in terms of restrictiveness.
Source: OECD FDI Regulatory Restrictiveness Index.

The Vietnamese government encourages FDI in a wide range of industries, notably those related to high-tech products, biodiversity, infrastructure development and the development of education, health and sports. FDI attraction in labour-intensive industries also remain a priority. Viet Nam's efforts to liberalise FDI are longstanding and have continued until recent times. For example, in June 2015, the government issued Decree No. 60/2015/ND-CP to remove the 49% cap on foreign ownership in publicly-listed companies.[8] The Investment Law and the Enterprise Law have also been revised several times to respond to changing conditions. The government has more recently planned to amend the Investment Law to integrate both domestic and foreign-owned companies under one common system.

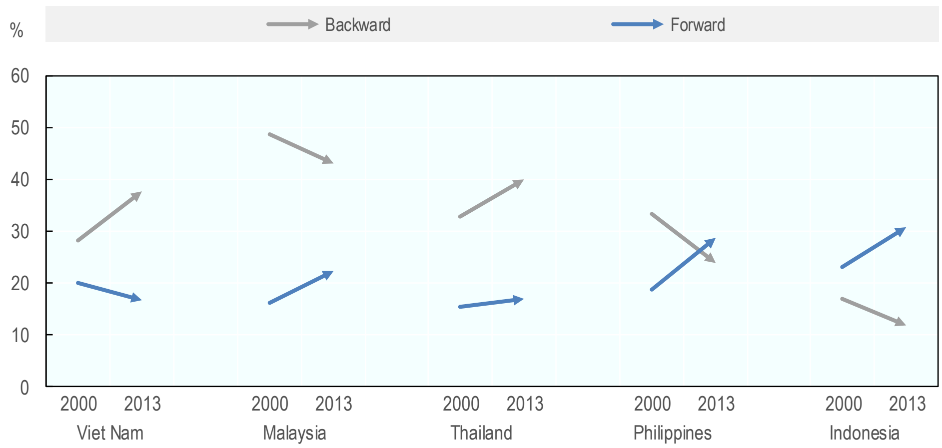
FDI-SME linkages could be further strengthened

Although FDI, especially in manufacturing, is a strong feature of the Vietnamese economy, FDI-SME linkages are still relatively weak: imports account for about 80% of total inputs into final export products and the average share of local sourcing by foreign-owned companies is 45%, which is lower than other main ASEAN competitors (e.g. Thailand, Indonesia, Malaysia and the Philippines) (OECD/UNIDO, 2019[19]).[9] These figures should encourage the government to promote linkages between FDI and local SMEs more proactively (see chapter 6), but these are also the outcome of Viet Nam's success in FDI attraction.

First, FDI in relation to GDP is higher in Viet Nam than in other large ASEAN countries (see Figure 3.5); thus, lower rates of local sourcing may well hide higher levels in absolute terms (e.g. in terms of contract volumes or relative to national GDP). Second, Viet Nam's FDI regulatory restrictions are lower than those in other ASEAN economies, which means that multinational enterprises (MNEs) in Viet Nam are faced with fewer obligations than elsewhere to outsource locally. Third, some of Viet Nam's FDI-driven sectors, such as electronics, require high-skilled suppliers which are less likely to be found locally, thus prompting MNEs to bring along their longstanding suppliers to the country destination of the investment.

A breakdown of value-chain linkages between "backward" and "forward" shows that, in the case of Viet Nam, the intensity of the former rose in the period 2000-2013, while the intensity of the latter declined (López González et al., 2019[20]) (Figure 3.6). An increase in backward linkages indicates that domestic companies, including SMEs, have become more integrated into GVCs, notably as providers of intermediate inputs. On the other hand, a decrease in forward linkages means that fewer domestic companies are purchasing from or providing services to foreign-owned companies. This confirms that FDI mostly caters to foreign markets in Viet Nam, but also suggests that few companies in Viet Nam have been able to emerge in downstream activities, for example as providers of local services to foreign-owned companies.

Figure 3.6. Global value chain linkages in Viet Nam and selected ASEAN countries, 2000-2013



Note: Backward linkages refer to relationships in which domestic companies act as suppliers of foreign-owned companies, while forward linkages refer to the situation in which local companies are buyers or providers of local services to foreign-owned companies. The calculations of Southeast Asia's backward and forward linkages are based on the OECD-WTO TiVA (Trade in Value Added) 2018 database.
Source: OECD visualisation based on López González, J. et al. (2019[20]), "Participation and benefits of SMEs in GVCs in Southeast Asia", OECD Trade Policy Papers No. 231, OECD Publishing, Paris.

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The main government initiative to build stronger linkages between FDI and local SMEs is the "Supporting Industry" policy, which aims to increase local sourcing in selected sectors through direct investment, corporate income tax and value-added tax exemptions, exemptions on import duties and credit incentives (see chapter 6 for more details on this programme). Going forward, the government could consider additional tax incentives specifically aimed at the upgrading of local suppliers by foreign-owned companies, as done by Malaysia and Singapore (Box 3.1). Joint ventures and licensing agreements have also been used in the past to encourage technology transfer from FDI to local SMEs, as shown by the example of Korea (Box 3.2). However, the success of this last policy largely depends on the local presence of SMEs able to collaborate with larger knowledge-intensive companies, thus calling for broader policies to upgrade the skills and innovation capacity of Vietnamese SMEs.

Box 3.1. Promoting FDI-SME linkages through tax incentives: The experiences of Malaysia and Singapore

Malaysia and Singapore have both supported FDI-SME linkages through targeted tax incentives. In Malaysia, under the Industrial Linkage Programme, foreign investors can claim tax deductions for costs related to the upgrading of local suppliers, including training, product development, testing and factory auditing. A Global Supplier Programme also offers financial and organisational support (for up to two years) to foreign-owned companies that second technical specialists to local firms, with a view to fostering collaboration and knowledge transfer.

Singapore's Local Industry Upgrading Programme had a similar design to Malaysia's Industrial Linkage Programme, but it has recently been replaced by the Pioneer Certificate Incentive and the Development and Expansion Incentive. The two offer a corporate tax exemption or a reduced rate on the eligible income if the foreign-owned company sets up locally upstream or downstream activities previously conducted internally. The aim is again to encourage technology transfer and the scale-up of local enterprises.

Source: (OECD, 2018[21]), OECD Investment Policy Reviews: Southeast Asia, OECD Publishing, Paris.
http://www.oecd.org/daf/inv/investment-policy/Southeast-Asia-Investment-Policy-Review-2018.pdf

Box 3.2. Korea's policies to accelerate technology transfer from foreign companies

The government of Korea adopted a set of policies in the 1970s meant to accelerate industrial learning and knowledge transfer from foreign companies. In particular, the government moved from a general export promotion strategy to a sectoral development strategy which involved cutting tax benefits for foreign-owned firms, limiting FDI inflows and targeting domestic public investment to specific sectors (e.g. chemicals, basic metals, fabricated metal products and equipment).

The Korean government mostly used joint ventures and licensing agreements to promote international technology transfer, as these two instruments became the main way for foreign-owned companies, mostly Japanese at that time, to access the Korean market. In particular, through Original Equipment Manufacturer (OEM) agreements, Korean firms acquired technology, training, and engineering support from Japanese buyers to meet international product standards. Under the pressure to provide high quality products at a lower price than competitors, domestic OEMs actively engaged in innovation and other productivity-enhancing activities which were instrumental to the rapid growth of Korea in the 1980s.

Sources: Chung, Y-I. (2007[22]), "South Korea in the fast lane, economic development and capital formation", Oxford University Press; Hobday, M. (1995[23]), "East Asian latecomer firms: learning technology of the electronics", *World Development*, 23 (7), 1171-1193.

Product market regulations

Viet Nam's ease of doing business has improved in the last six years

Product market regulations (PMR) refer to rules and regulations that affect competition in product markets, such as the existence and quality of competition law, the role of the state in the economy, including through state-owned enterprises, or still the presence of price controls. The OECD has developed a range of PMR indicators at both the economy-wide and sector levels which, as yet, do not cover Viet Nam. The World Bank Doing Business (WBDB) report is also a widely known source which measures the ease of doing business worldwide, mostly by asking questions to consultants and lawyers involved in business registration and business support in each of the surveyed countries.

In 2020, Viet Nam ranked 70th out of 190 countries in the WBDB report, an improvement by nearly 30 places since 2014 (Table 3.2). The three areas where Viet Nam performs better are "getting credit" – which measures the existence of movable collateral laws and credit information systems rather than direct access to bank loans – and two infrastructure-related indicators, "construction permits" and "getting electricity". On the other hand, the areas where Viet Nam performs worst are those more closely related to entrepreneurship, notably the quality of the insolvency regime, the ease of starting a business (more specifically, a limited liability company) and the complexity of the tax system.

This last fact is puzzling since, as noted in chapter 2, Viet Nam is an entrepreneurial economy in which a large share of the population is involved in business creation and business ownership and in which the rates of gazelles and high-growth firms are high by international standards. However, most new businesses in Viet Nam, similar to other countries, take the legal form of sole proprietorship which is typical for the own-account workers, self-employed and very small firms, whereas the WBDB "starting a business indicator" refers to national legislation governing the creation of "more structured" (e.g. in terms of minimum capital requirements) limited liability companies. For these companies, the WBDB reports that it takes 16 days, 8 procedures and at least VND 3 million (a bit less than USD 130) to open one in Viet Nam. In this respect, the government issued in 2017 Resolution 136/NQ-CP to simplify the registration procedures of all legal forms of business enterprises. [10]

Table 3.2. Viet Nam's performance in the World Bank Doing Business report, 2020

	Ranking 2020	Change from 2019	Change from 2014
Ease of doing business	70	-1	+29
Getting credit	25	+7	+17
Construction permits	25	-4	+4
Getting electricity	27	0	+129
Registering property	64	-4	-13
Enforcing contracts	68	-6	-22
Protecting investors	97	-8	+60
Trading across borders	104	-4	-39
Paying taxes	109	+22	+40
Starting a business	115	-11	-6
Resolving insolvency	122	+11	+27

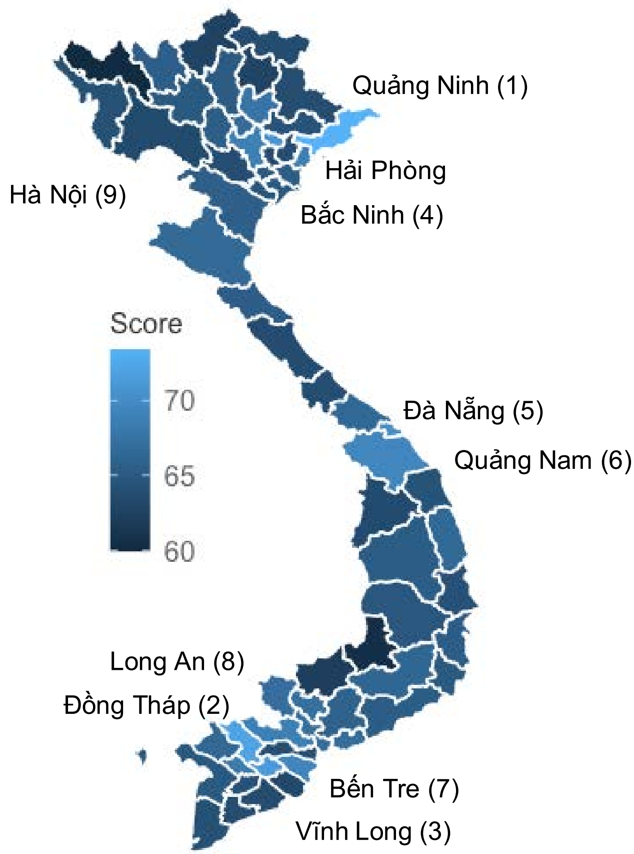
Note: Surveys are conducted in each of 190 economies' largest cities. Samples for the survey in Viet Nam are from Ho Chi Minh City.
Source: World Bank's Doing Business Reports.

Table 3.2 also shows that Viet Nam's performance in the WBDB has improved in many areas, from getting electricity (+129 positions) to protecting investors (+60 positions) to paying taxes (+40 positions). This is the outcome of general reform efforts, including a resolution issued in 2014 (Resolution 19/NQ-CP) which aims to improve the ranking of Viet Nam in a number of international indicators every year, with the objective to achieve in each of them the ASEAN-4 average (Thailand, Indonesia, Malaysia, the Philippines). [11]

Other major recent regulatory reform efforts have included: i) the so-called Project 30 (Box 3.3), which since 2010 has aimed to reduce regulatory compliance costs by an annual average rate of 30%, has resulted in the simplification of thousands of administrative procedures and has been credited, *inter alia*, with being a major driver of FDI attraction, especially in the early 2000s[12]; ii) one-stop shops and business portals, which have been deployed to provide information and advice on issues such as business registration and business licenses; and iii) Viet Nam's Provincial Competitiveness Index (PCI), a joint initiative of the Viet Nam Chamber of Commerce and Industries (VCCI) and the United States Agency for International Development (USAID), which benchmarks the effectiveness of local market regulations.

The 2019 edition of the PCI was built using responses from 11 000 local enterprises and 1 500 foreign-owned enterprises, and showed an overall improvement in local governance in almost all provinces (Figure 3.7) (VCCI/USAID, 2019[24])). In particular, enterprises observed a significant reduction in informal charges, which is a proxy for local corruption, although still more than half of the enterprises reported having to pay such charges. Quang Ninh, in the north of the country, has been ranked as the most competitive province for three consecutive years, thanks to its supportive polices for SMEs including administrative reforms, infrastructure development, and policy measures aimed at encouraging investment and business linkages.

Figure 3.7. Viet Nam's Provincial Competitiveness Index 2019



Province	PCI	Province	PCI
Quảng Ninh	73.4	Nam Định	65.1
Đồng Tháp	72.1	Hà Nam	65.1
Vĩnh Long	71.3	Kiên Giang	65.0
Bắc Ninh	70.8	Yên Bái	65.0
Đà Nẵng	70.2	Ninh Thuận	64.9
Quảng Nam	69.4	Đắk Lắk	64.8
Bến Tre	69.3	Ninh Bình	64.6
Long An	68.8	Bắc Giang	64.5
Hà Nội	68.8	Quảng Ngãi	64.3
Hải Phòng	68.7	Hậu Giang	64.1
Cần Thơ	68.4	Phú Yên	64.1
Thái Nguyên	67.7	Điện Biên	64.1
Bình Dương	67.4	Cà Mau	64.1
TP.HCM	67.2	Tiền Giang	63.9
Tây Ninh	67.0	Hải Dương	63.8
BRVT	67.0	Hòa Bình	63.8
Vĩnh Phúc	66.7	Quảng Trị	63.8
Nghệ An	66.6	Lạng Sơn	63.8
Bình Định	66.6	Bạc Liêu	63.8
TT-Huế	66.5	Quảng Bình	63.7
An Giang	66.4	Sóc Trăng	63.7
Lâm Đồng	66.2	Cao Bằng	63.7
Đồng Nai	65.8	Hưng Yên	63.6
Thanh Hóa	65.6	Kon Tum	63.5
Lào Cai	65.6	Sơn La	63.4
Phú Thọ	65.5	Trà Vinh	63.2
Hà Tĩnh	65.5	Bắc Kạn	62.8
Thái Bình	65.4	Hà Giang	62.6
Khánh Hòa	65.4	Bình Phước	62.2
Gia Lai	65.3	Đắk Nông	60.5
Bình Thuận	65.3	Lai Châu	60.0
Tuyên Quang	65.1		

Note: The Provincial Competitiveness Index (PCI) is conducted annually to measure the economic governance for business development. The overall PCI includes ten sub-indices. A province that is considered to perform well on the PCI is one that has: 1) low entry costs for business start-up; 2) easy access to land and security of business premises; 3) a transparent business environment and equitable business information; 4) minimal informal charges; 5) limited time requirements for bureaucratic procedures and inspections; 6) limited crowding out of private activity due to support of state-owned, foreign-owned, or connected enterprises; 7) pro-active and creative provincial leadership in solving problems for enterprises; 8) developed high-quality business support services; 9) sound labour training policies; and 10) fair and effective legal procedures for dispute resolution. The rankings of the top ten provinces are in parentheses in the figure. Viet Nam's islands are not shown in the map.
Source: OECD visualisation based on data from PCI (https://pcivietnam.vn/en/pci-data).

Box 3.3. Viet Nam's Project 30 on regulatory simplification

Preparatory work on Project 30 started in 2008 with an initial "inventory phase" in which civil servants from all levels of government (national, provincial and municipal) created a comprehensive inventory of administrative procedures, which was eventually published on an online database (http://www.thutuchanhchinh.vn/). This database collected more than 5 700 administrative procedures, 9 000 regulating documents, and over 100 000 forms.

A review phase then followed in which a Special Task Force (consisting of government officials, civil servants, citizens, non-governmental organisations and business associations) reviewed the entire database to identify problematic administrative procedures, explain why those procedures were unnecessary, unreasonable, overly expensive, or inconsistent with existing regulations, and recommended solutions that could make the process simpler and more efficient.

Finally, the implementation phase started through Resolution 25/NQ-CP on the simplification of a pilot package of 258 administrative procedures (June 2010). These procedures fell into priority areas identified by the Advisory Council for Administrative Procedure Reform, including taxation, custom procedures, construction and real estate. To implement this first round of regulatory simplification, 14 laws, 3 ordinances, 44 decrees, 8 Prime Minister's decisions, 67 circulars and 33 ministerial decisions had to be amended. By December 2014, the Ministry of Justice reported that 4 723 administrative procedures (92.8% of the total) had been simplified.

Through Project 30 businesses have been estimated to save annually USD 20 million in invoicing procedures, USD 50 million in tax declaration and tax collection procedures, USD 30 million in custom procedures, and USD 70 million in construction fee procedures. Today, the challenge is to ensure that national regulatory simplification is effectively enforced across all provinces and that local regulations are also made simpler.

Source: OECD (2011[25]), "Administrative Simplification in Viet Nam: Supporting the Competitiveness of the Vietnamese Economy", OECD Publishing, Paris. https://doi.org/10.1787/9789264096646-en.
Vo, T. T. and V. C. Nguyen (2016[26]), "Regulatory Coherence: the Case of Viet Nam", in Gill, D. & Intal, P. Jr. (eds.), "The Development of Regulatory Management Systems in East Asia: Country Studies", ERIA Research Project Report 2015-4, ERIA, Jakarta, pp.359-391 https://www.eria.org/RPR_FY2015_No.4_Chapter_8.pdf.

Going forward, based on the WBDB ranking, there is clearly room to improve insolvency procedures by reducing the length of the whole process (i.e. 5 years compared to the OECD average of 1.7 years) and increasing the recovery rate for secured creditors (i.e. 21% compared to the OECD average of 70%). This would help re-allocate productive resources more quickly and strengthen access to credit by re-assuring creditors on the ability to recover part of their credit if borrowers go bust. In addition, existing administrative procedures still need streamlining; for example, paying taxes consumes 384 hours per year in Viet Nam compared to the average of 159 hours in OECD countries. Further adoption of digital technologies can help streamline the relationships between the state and taxpayers.

Competition policy needs to be strengthened, including by reforming state-owned enterprises

Viet Nam has had a national competition law since 2004 (Law No. 27/2004/QH11) which regulates classic antitrust issues such as concentration in product and service markets, acts of unfair competition (including competition-restricting agreements), abuse of market dominant positions and forbidden acts by government agencies. A market share threshold of 30% is used to determine substantial market power and to prohibit certain anticompetitive behaviours, while a merger can be stopped if the resulting combined market share is 50% or more.

SMEs (measured by the number of employees or capital) are mostly exempt from the provisions of the Viet Nam competition law (OECD, 2018[27]). On the one hand, this is normal since SMEs, due to their size, are unlikely to reach a dominant market position. On the other hand, markets in competition laws are often narrowly defined, which means there might still be specific markets in which larger SMEs could reach a dominant position. In such a circumstance, there is no reason why the provisions of the national competition law should not be applied to SMEs. In addition, some of the provisions of the competition law are not properly enforced due to imperfect regulations and the limited resources of the Antitrust Authority (OECD, 2018[27]).

A major factor curbing competition in the Vietnamese economy lies in the significant role of state-owned enterprises (SOEs), which accounts for about two-fifths of national GDP. Vietnamese SOEs are much less efficient than multinational enterprises (MNEs) and other domestic private-sector companies, as shown by their higher incremental capital-output ratio (ICOR), which means investments yield fewer returns in SOEs. The reform of SOEs has been a priority of the national government; for example, Decision 929/QD-TTg of 2012 required SOEs to prepare detailed restructuring plans to focus only on their core business, which mostly concerns the provision of essential public goods and services. The government has also undertaken a process of divestment, although progress on this front has been slow.

An additional aim of future SOE reforms should be improvements in their corporate governance. Respondents to an OECD survey stressed the importance of ensuring that privatisation efforts lead to deep changes in managerial and administrative practices, such as through the election of a board of directors from the private sector, as well as the importance of clarifying a list of non-commercial obligations performed by SOEs and establishing an arm's-length relationship with them to limit interference (OECD, 2018[17]).

The tax system

Tax structure and tax revenue

The corporate income tax rate has been lowered significantly in the last 15 years

Viet Nam's main sources of tax revenue are the corporate income tax (CIT) and the value added tax (VAT), which stood respectively at 20% and 10% as of mid-2020, while tax revenue from personal income taxation (PIT) is still modest. This is a trend common to many emerging economies, which is the result of a large number of informal workers who fall outside the radar of tax authorities and of a large share of the population whose income is too low and therefore exempted from personal income taxation (Figure 3.8, Panel A).

Between 2004 and 2017 the CIT rate was reduced from 32% to the current 20%,[13] which is lower than the OECD and ASEAN averages (Figure 3.8, Panel B).[14] Due to the drop in the CIT rate and the inability to collect much revenue from personal income taxation, tax revenues in relation to GDP have declined in Viet Nam since 2010, from 22.4% to 18.2% (Figure 3.8, Panel C), which reduces the capacity of the government to spend on public policies.

As mentioned earlier, Viet Nam has made progress in the simplification of the tax regime, passing from the 131st to 109th position of the WBDB report. Nonetheless, tax payment is clearly an area where improvements are still possible; for example, it still takes considerably more time (384 hours) to deal with tax payments in Viet Nam than in other countries in the region (Figure 3.8, Panel D).

Figure 3.8. Viet Nam's tax regime

Sources: Panels A & C: ICTD/UNU-WIDER, 2019, Government Revenue Dataset (https://www.wider.unu.edu/project/government-revenue-dataset); OECD Revenue statistics. IMF Article IV 2018 consultation to Viet Nam. Panel B. KPMG Corporate tax rates database (https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-ratesonline/corporate-tax-rates-table.html); Panel D: World Bank's Doing Business Survey 2020.

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Preferential SME taxation

The introduction of a preferential tax regime for SMEs is currently being considered

The SME Support Law, which has been in place since January 2018, floated for the first time in Viet Nam the idea of a special CIT regime for SMEs. Indeed, the law stipulates that SMEs shall be granted lower rates than the standard CIT rate for a given period of time and that micro-enterprises will also benefit from simpler accounting and tax administrative procedures. At the end of 2019, the Ministry of Finance issued a Resolution proposing a two-year CIT exemption for household and individual businesses that would convert to formally registered enterprises (see Box 3.4 for more information on Viet Nam's regulation on household businesses), as well as a reduced CIT rate of 15% for micro-enterprises and 17% for small and medium-sized enterprises (based on the classification of the SME Support Law, see Table 2.1). However, this resolution still needs approval by the National Assembly. The Ministry of Finance estimates that this new regime will cost VND 9.2 trillion (USD 400 million) in terms of foregone fiscal revenues: VND 2.7 trillion from the temporary CIT exemption for "converting household businesses" and VND 6.5 billion from the reduced CIT rates for micro and small enterprises.

Box 3.4. Viet Nam's household business regulation

According to the Vietnamese law, every citizen aged 18 or older has the legal right to establish a household business, which cannot employ more than 10 workers and must operate in only one business location (branch or representative offices are not allowed). The household must apply for a Certificate of Household Business Registration from the district-level business registration authority, which forwards the list of approved certificates to the district-level tax authority. Households engaged in certain types of activities (e.g. agriculture, forestry, aquaculture, street vendors, nomads, and others) are not required to register. When a business has 10 or more workers, it must apply for an enterprise registration certificate under the 2014 Enterprise Law.

There are about 5.1 million household businesses in Viet Nam, which account for a large share of employment and GDP (about 30%). Many household businesses have operated in a traditional way for many years and, although some employ more than 10 workers and generate revenues of VND trillions per year, the owners resist formalisation and registration under the Enterprise Law (CIEM, 2017[28]).

Objectives and limits of SME preferential tax regimes

The main objectives of SME preferential tax regimes are to level the playing field between small enterprises and larger companies – the assumption being that the presence of fixed costs and low economies of scale makes running a small business comparatively more costly than operating a larger business – and to provide small enterprises with additional after-tax income, which may (or may not) be spent on investment and business expansion. In the case of Viet Nam, this policy is also meant to encourage business formalisation by simplifying tax compliance and accounting rules for micro-enterprises.[15]

On the downside, SME preferential tax regimes have often been charged with causing "growth traps" by discouraging business growth beyond the size threshold set by the law. This is, indeed, also the concern of Viet Nam's Ministry of Finance, which has advanced the hypothesis that (growing) small companies might artificially create separate legal entities to remain under the new preferential tax regime. However, findings on threshold effects from empirical research are not conclusive, suggesting that the existence and size of these effects are country-specific and depend, *inter alia*, on the way the policy is implemented. In the case of Peru, for example, the IMF found that size-dependent regulations are costly for the economy, especially in the presence of labour market rigidities, and lead to lower aggregate wages, profits, and output, including through a stronger use of informal employment (Dabla-Norris et al., 2018[29]). However, in the context of Canada's small business tax rate, Dachis and Lester (2015[30]) find that there is not an unusual clustering of firms near the income and capital asset thresholds set by the law, possibly because they are both set at a relatively high level (OECD, 2017[31]).

Viet Nam's envisaged SME preferential tax regime has some good features, while others would benefit from adjustments

In the case of Viet Nam, the difference between the preferential tax rates and the normal CIT rates is small enough (3 and 5 percentage points respectively for small/medium enterprises and micro-enterprises) to limit the risk of major "growth traps". This risk could be further reduced by making the phase-out from the preferential regime gradual.

A stronger note of caution is, on the other hand, needed for the two-year CIT exemption for converting household businesses, which does not seem to be generous enough to convince these enterprises, which have become used to operating semi-informally, to formally register under the Enterprise Law. In order to bring household businesses into the formal sector, the government of Viet Nam could instead think of a separate tax regime, the pre-requisite being that this new regime would only cover own-account workers and micro-enterprises employing only a few workers. Brazil's Individual Micro-entrepreneur policy (*Micro Empreendedor Indivdual*, MEI) offers an example of a similar tax policy (Box 3.5).

Box 3.5. Brazil's Micro-entrepreneur tax regime

Description of the approach

In 2009, Brazil introduced a preferential tax regime specifically aimed at the formalisation of micro-entrepreneurs and own-account workers, i.e. the *Micro Empreendedor Individual* (MEI) regime. The main advantages of this tax policy are very low administrative costs related to business registration and tax payment as well as pension coverage. As of 2018, 7.7 million legally registered companies in Brazil operated under the MEI regime and about 80% of new companies every year register as MEI.

In terms of eligibility conditions, MEI entrepreneurs cannot exceed BRL 81 000 in annual gross revenues, cannot employ more than one person, cannot be a partner, administrator or owner of another business, and must operate in a sector covered by the regime (over 400 activities, mostly personal services).

MEI features the following preferential conditions: i) social security contributions are set at 5% of the minimum salary; ii) a fixed monthly payment is paid to cover local taxes; iii) if the business has an employee, the micro-entrepreneur pays 3% of his/her remuneration to the social security system, while 8% is deducted from the salary to converge into a state-managed Guarantee Fund of Work Time; iv) businesses are exempt from income taxation and other federal taxes; v) taxes are paid electronically once a year. The whole MEI registration process is also conducted through an online portal.

Factors of success

An evaluation of MEI in one of the Brazilian states (Rondônia) shows that 86% of its users were satisfied with the scheme, and that this policy helped many micro-entrepreneurs to regularise their position. The scheme was also considered successful in tackling poverty: 39% of MEI entrepreneurs in Rondônia had not completed high school, suggesting that the scheme was reaching low-skilled people who often start a business out of necessity due to lack of other employment opportunities.

The national small business agency of Brazil (SEBRAE) has also considered MEI successful in alleviating poverty and encouraging formalisation, with nearly 9 million companies that have opted for this regime between 2009 and 2019. One of the main benefits is that formal registration has enabled micro-enterprises to access external finance, notably through the credit products of public development banks. Moreover, between 50 000 and 70 000 companies graduate every year from MEI into *Simples Nacional*, a second preferential tax regime thought for larger SMEs. MEI is also a relatively inexpensive policy, accounting for 0.52% of total federal tax spending in 2015 (BRL 1.4 billion).

Obstacles and responses

The biggest obstacle has been the difficulty of keeping the individual micro-entrepreneurs current with their payments. In 2019, 54% of MEIs had not fully paid their tax duties. In response, the government has created a simplified online payment process where MEIs can pay through automatic debit and has also made it possible to make payments based on a minimum monthly fee of BRL 50 (about USD 13). To better educate MEIs about their rights, benefits and obligations, an introductory online course has also been made available.

Relevance to Viet Nam

Viet Nam has a high level of informality especially among micro-enterprises and household businesses. Although a policy to support the formalisation of household businesses has been in place since 2018 through the offer of a fixed-term CIT exemption, it has so far met with limited success. A simple registration regime for the self-employed and small household business owners, coupled with access to credit and training, could provide a stronger incentive for formalisation.

Source: OECD (2020[32]), *SME and Entrepreneurship Policy in Brazil 2020*, OECD Studies on SMEs and Entrepreneurship, OECD Publishing, Paris, https://doi.org/10.1787/cc5feb81-en.

Debt and equity finance conditions

Debt finance

Viet Nam's SME lending volumes seem to be on par with OECD countries

Viet Nam's SME lending has increased over the last years, reflecting the overall growth of the economy and reaching 22% of total bank lending in 2017 (Figure 3.9, Panel A).[16] Although fully internationally comparable statistics on SME credit are not available, this figure appears to be in line with those of many OECD countries (OECD, 2019[33]). A study by the National Economics University additionally shows that the probability of getting a business loan is 23.7-26% lower if the enterprise is an SME, but 2.3-2.8% higher if the enterprise is a state-owned company.[17]

Access to finance is perceived as a main problem by domestic SMEs

World Bank Enterprise Survey (WBES) data (2015[34]) show that, similarly to other countries, Vietnamese firms consider lack of external finance a major issue: 22% regarded this as the main problem in 2015, a slight decline from nearly 25% in 2009, but still higher than most other countries in the same region (Figure 3.9, Panel B).[18] In addition, about half (48%) of the WBES-surveyed firms reported having either a loan or a credit line from a financial institution in 2015.[19] The breakdown by firm size was 31% for micro-enterprises (5-9 employees), 49% for small firms (10-49 employees), 54% for medium-sized firms (50-249 employees) and 53% for large enterprises (250+ employees). The median amount of the most recent loan for an SME (less than 250 employees) was VND 2 billion (USD 85 000), while total outstanding loans/credit lines stood at VND 5 billion (USD 200 000). These values were about one-tenth of those found for large companies (250+ employees), respectively VND 20 billion (USD 850 000) and VND 57 billion (USD 2.2 million). The overwhelming majority of loans were collateralised (91%), with a slightly higher rate (93%) of SME loans.[20]

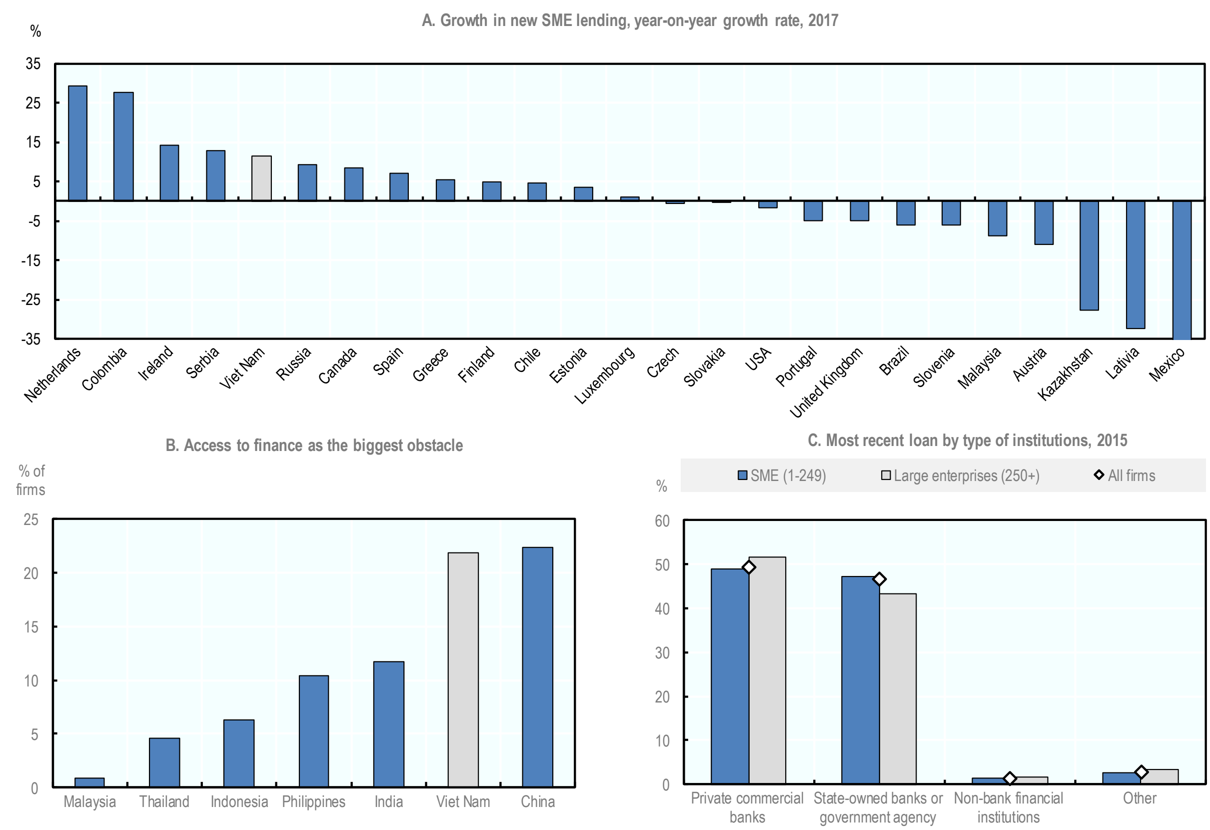
There are some signs of good cash-flow management practices in domestic SMEs.

Only about half of the WBES-surveyed companies (47%) had applied for a loan in 2015: 45% of SMEs and 53% of large companies. The main reason for not applying for a loan was that there was no need (i.e. had sufficient capital, 69%). This could imply either good cash-flow management practices or a possible lack of growth aspirations. For the remaining 31% of those who needed a loan but did not apply (*i.e.* so-called discouraged borrowers), the complexity of the application process was the main reason (12.2% in total, 13.1% for SMEs and 7.2% for large companies), followed by unfavourable interest rates (4.6% for both SMEs and large companies) and high collateral requirements (6.6% in total, 7.4% for SMEs and 2.6% for large companies).

State-owned banks are a main source of SME finance in Viet Nam

State-owned banks play an important role in SME financing in Viet Nam, accounting for 47% of total SME loans, only marginally lower than the proportion originating from private commercial banks (49%). State-owned banks are also a significant source of loans for large companies (43%), although private banks account for a larger proportion in this case (52%). Sources of finance other than traditional banks still play a very small role in the business financing landscape of Viet Nam (Figure 3.9, Panel C). As the banking sector is heavily regulated and a large share of enterprise financing is channelled through earmarked loans issued by state-owned banks,[21] close ties with government officials are often considered important to access bank lending (Pham and Talavera, 2018[35]).

Figure 3.9. SME financing conditions in Viet Nam, 2017 and 2015



Note: Panel A: The definitions of SME lending vary by country. In the case of Viet Nam, SME lending refers to loans going to companies employing less than 200 employees. Panel B: Data for Viet Nam, Indonesia, Malaysia and the Philippines refer to 2015, Thailand to 2016, Indonesia to 2015, India to 2014 and China to 2012.

Source: Panel A: OECD (2019[36]), *Financing SMEs and Entrepreneurs 2019: An OECD Scoreboard*, OECD Publishing, https://doi.org/10.1787/23065265 and State Bank of Viet Nam. Panels B and C: OECD calculations based on World Bank Enterprise Surveys.

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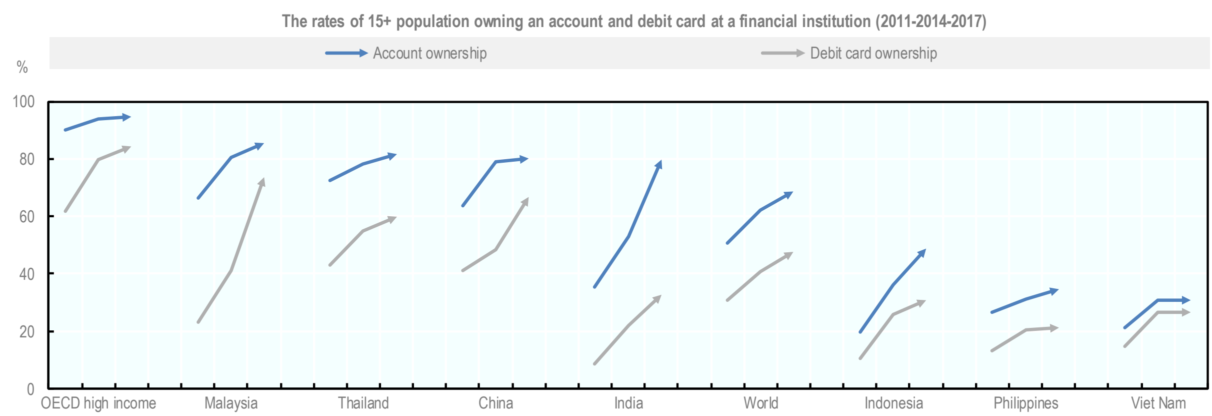
Going forward, the development of alternative financial institutions could help boost competition in the credit market and lead to better borrowing conditions, especially for smaller companies that have fewer relationships with state-owned banks and large commercial banks. In some large emerging economies, for example, credit co-operatives have become an increasingly important source of local finance for micro and small enterprises (OECD, 2020[32]), so that the government of Viet Nam could also think of introducing appropriate legislation in this area. At the same time, government-backed loan guarantees should be significantly scaled up to encourage more SME lending (see also chapter 5).

Financial inclusion is being promoted through a multi-pronged approach

Financial inclusion has moderately improved in recent years in Viet Nam (Figure 3.10). The APEC Financial Inclusion Summit held in Viet Nam in 2017 marked the commitment of policymakers in the Asia-Pacific region to improve financial inclusion in their respective countries (GIZ/RFPI, 2018[37]). This was followed in Viet Nam by Resolution 01/NQ-CP of 2019, which gave the Central Bank (SBV) the main responsibility for implementing the National Financial Inclusion Strategy, the main aim of which is to increase the share of the population with access to finance (SBV, 2019[38]). The Strategy, for example, pointed out that Viet Nam has nearly 13 000 Post Offices which offer important services to regions with low population density and which could ease access to mobile money services. In fact, although there are more than 125 mobile phone subscriptions per 100 people in Viet Nam, according to the Global Financial Inclusion Database, the percentage of Vietnamese adults with mobile money accounts is less than 4% (MIX, 2018[39]).

Figure 3.10. Financial inclusion in Viet Nam and other selected countries and regions, 2011-2017



Source: OECD calculations based on the Global Financial Inclusion Database.

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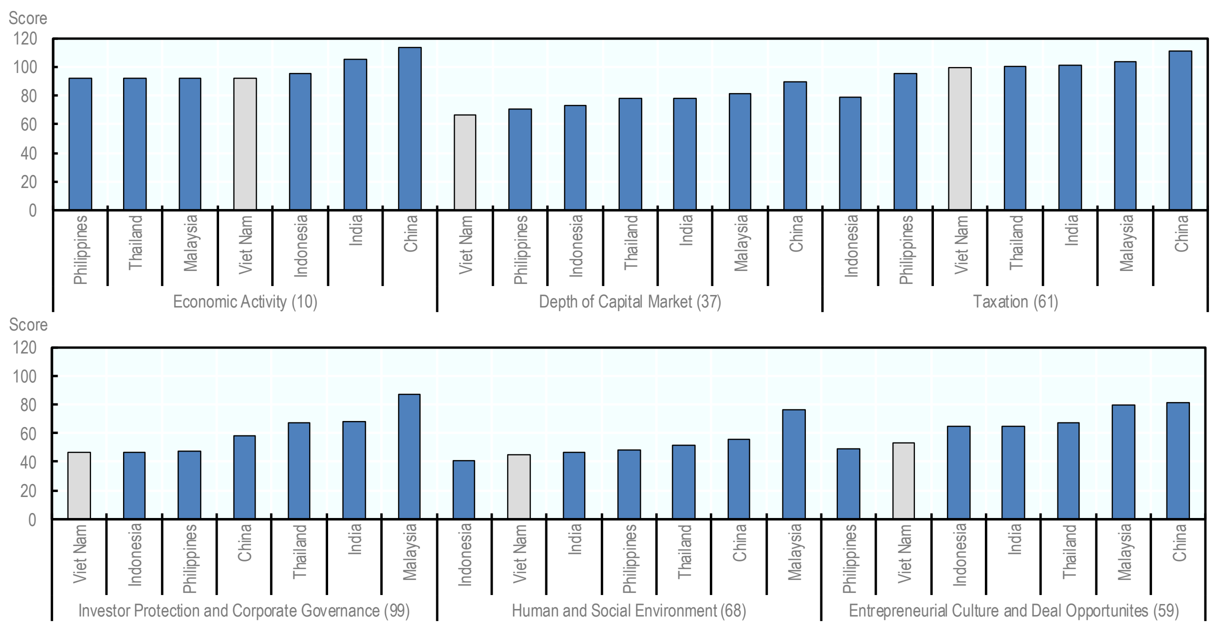
Equity finance

Viet Nam's Venture Capital market is growing, but still has weak legal foundations

Viet Nam's Venture Capital (VC) market has recently attracted a record wave of investments in technology-based companies.[22] Viet Nam ranked 43rd out of 125 countries in the 2018 Venture Capital and Private Equity (VC/PE) Country Attractiveness Index and was described as a "highly attractive market with increasing exposure" (IESE, 2018[40]). Figure 3.11 provides a summary of the different dimensions of the VC/PE attractiveness ranking. Viet Nam performs best in the area of "economic activity" (10th position), which includes indicators related to the size of the economy, growth expectations and employment levels. It ranks worst in the area of "investor protection and corporate governance" (99th position), which assesses the security of property rights and quality of legal enforcement. The capital market also performs relatively well, thanks to high trading volumes and an active Initial Public Offering (IPO) and Merger & Acquisition (M&A) market. On the downside, the debt market, as seen earlier, does not provide enough liquidity to start-ups and SMEs and is sapped by a high rate of non-performing loans (NPLs). In terms of the "human and social environment", Viet Nam has good labour regulations but the generally low level of human capital does not favour access to external finance.

The main programme affecting VC development in Viet Nam is Project 844/QD-TTg, which was launched in 2016 and aims at "Building a start-up ecosystem with a vision to 2025". The Project, which was followed by Decree 38/2018/ND-CP, regulates the operations of investment funds in SMEs and start-ups and is described in more detail in chapter 5 of the report.

Figure 3.11. Venture Capital and Private Equity Attractiveness in Viet Nam and selected countries, 2018



Note: Viet Nam's global ranking in parenthesis (125 economies surveyed).
Source: Instituto de Estudios Superiores de la Empresa, IESE (2018[40]), *The Venture Capital and Private Equity Country Attractiveness Index 2019*, https://blog.iese.edu/vcpeindex/.

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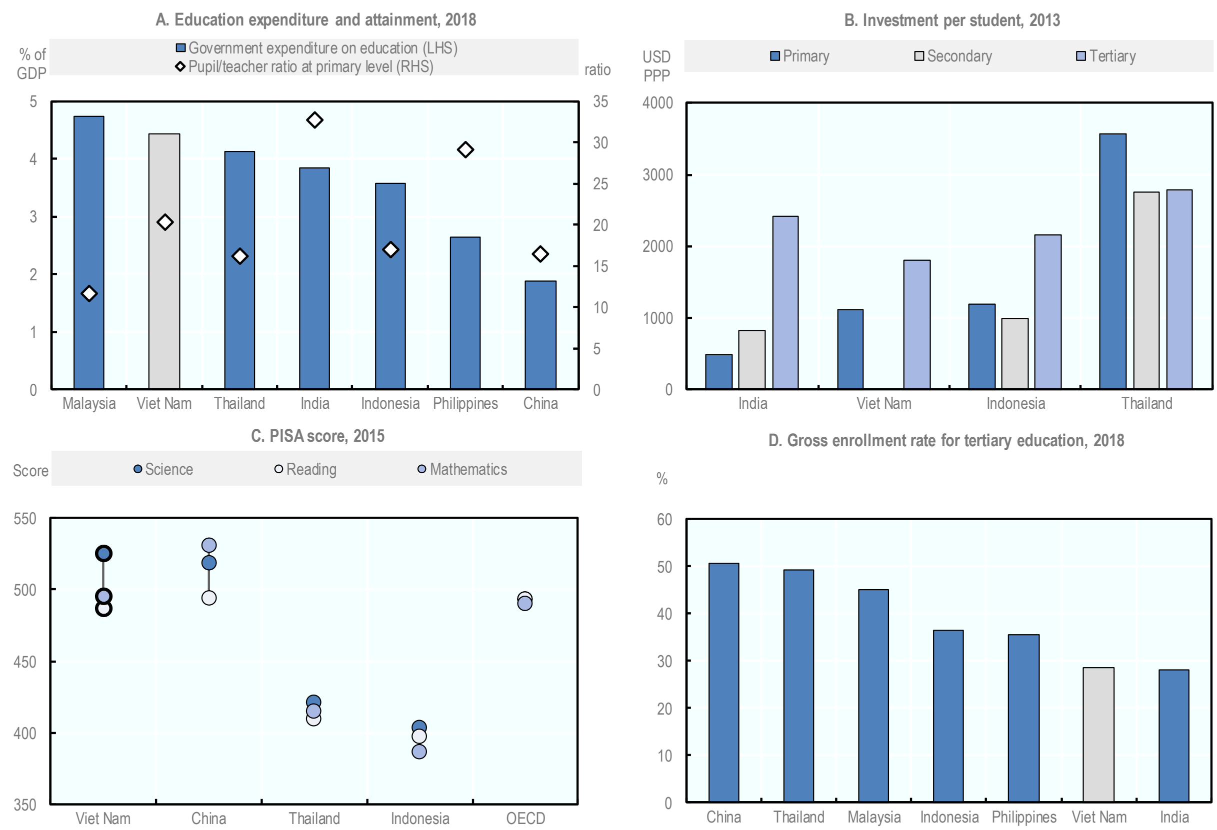
Education and skills performance

Viet Nam performs well in primary and secondary education, but there are signs of inequality in access to higher education and skills mismatches in the labour market

Education takes a central role in the Vietnamese culture, with households investing a significant share of their income in the schooling of their children. Viet Nam's government spending on education is higher than most regional peers (4.4% of national GDP) (Figure 3.12, Panel A), although the average investment per student is lower than in Thailand and Indonesia (i.e. USD 1 110 for primary school students and USD 1 797 for tertiary students) (Figure 3.12, Panel B). Viet Nam's pupil/teacher ratio in primary education is 20.3, which is higher than in most ASEAN countries and helps explain the recent success of private and international schools, especially in the largest cities, that offer closer monitoring and tutoring of students.

Viet Nam is generally considered to have high-quality basic education, to the extent that it outperforms many rich economies in the OECD Programme for International Student Assessment (PISA): Vietnamese students are on par with the OECD average in mathematics and reading, while they rank 8th worldwide in science (Figure 3.12, Panel C).[23] However, Viet Nam's PISA sample is not representative of the whole student population, being biased by a higher socio-economic status than the average (OECD, 2016[41]). This poses a major comparability problem because Vietnamese households in the top wealth quintile spend 15 times more on private tutoring than households in the poorest wealth quintile (Dang and Rogers, 2016[42]). In addition, the share of the population that completes high school and enrols in tertiary education is still relatively low (28.5%) (Figure 3.12, Panel D), pointing to inequality in access to higher education.[24]

Figure 3.12. Education performance in Viet Nam and selected countries



Note: Panel A: Data from different years. LHS: Malaysia (2017), Viet Nam (2016), Indonesia (2015), Thailand, India (2013), Philippines (2009), China (1999). RHS: Viet Nam, Indonesia, China (2018), India, Philippines, Thailand, Malaysia (2017). Panel B: Data available only for selected countries.
Source: OECD calculations based on UNESCO's Institute for Statistics (UIS) and OECD's PISA.

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Many Vietnamese firms consider selecting workers with the right set of skills to be one of the most challenging problems facing their business. Results from the "Skills toward Employment and Productivity" (STEP) employer survey reveals that between 70% and 80% of Vietnamese graduates are not considered to have the required skills for professional or technical high-paid jobs. According to a World Bank analysis, Viet Nam's educational system suffers from a major disconnect between employers, students and education/training providers. Stakeholders do not sufficiently interact with each other, while career guidance is still at its infancy (World Bank, 2014[43]). Students lack information about educational and occupational choices, while employers lack information about the content and quality of the educational offering. The inevitable outcome is a skills mismatch in the labour market, as shown by the fact that 43% of the working youths are in jobs that do not match their qualifications (OECD, 2017[44]).

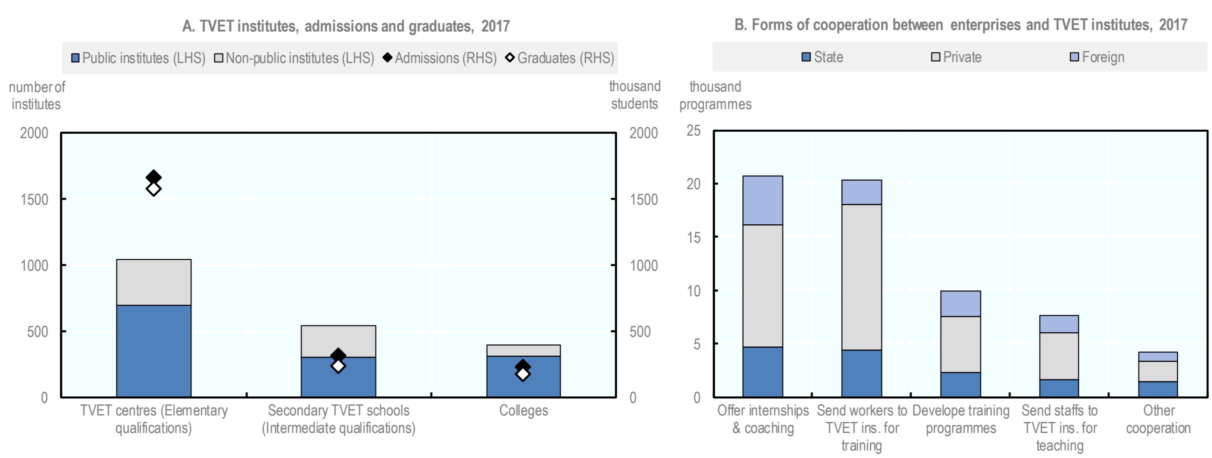
The technical and vocational education and training (TVET) system could be better used to address existing skills mismatches

Viet Nam does not have a well-performing technical and vocational education and training (TVET) system, although this could help address the skills mismatch. Viet Nam, for example, ranks only 117th (out of 132 countries) in the Vocational and Technical Skills pillar of the Global Talent Competitiveness Index (INSEAD, 2020[45]). TVET institutes in Viet Nam are classified into 395 colleges (*cao đẳng*), 541 secondary TVET schools (*trung cấp*) and 1040 TVET centres (*trung tâm giáo dục nghề nghiệp*) (Figure 3.13, Panel A). The majority of TVET admissions and graduates are in low-skilled short programmes, while vocational education provided by colleges as an alternative to university degrees is much less common.

The Directorate for Vocational Education and Training at the Ministry of Labour, Invalids and Social Affairs (MOLISA) guides Viet Nam's TVET policies. The 2015 TVET Law tried to reduce skills mismatches by encouraging closer collaboration between TVET institutes and the business sector, mostly through tax incentives,[25] but it has not proved very successful. Private enterprises tend to co-operate with TVET institutes more than SOEs or MNEs, but the main form of co-operation is simple internships and coaching, while the joint development of training programmes is much less common (Figure 3.13, Panel B). More generally, there is a certain reluctance by both TVET institutes and private-sector companies to collaborate; for example, some enterprises have reported that they have no training needs and openly refuse to work with TVET institutes (NIVET, 2018[46]).

Viet Nam is currently looking at a possible TVET reform with financial and technical support from Germany, which suggests the country might be moving towards a dual-education system combining theoretical learning in schools with practical learning in companies through periods of apprenticeship. Such a system has been highly successful in German-speaking countries (Germany, Austria and Switzerland) and has become a model for many others struggling to make a sense of their national TVET system. However, for dual education to work, there needs to be close co-ordination, not just collaboration, between the education and business sectors, especially in the design of training curricula. This co-ordination is currently lacking in Viet Nam and typically takes many years to materialise; in the case of Viet Nam, in particular, it would have to overcome the existing mutual distrust between TVET institutes and private-sector companies.

Figure 3.13. Technical and Vocational Education and Training (TVET) performance in Viet Nam, 2017



Note: Admissions in colleges are for students who graduated from upper secondary high schools (a different track to university, as university education is more academic-orientated while college education is more vocational-based); admissions in secondary TVET schools are for students who graduated from lower secondary school; TVET centres provide elementary skills for personnel with limited educational attainment.
Sources: NVIT (2019[47]), Viet Nam Vocational Education and Training Report 2017. National Institute for Vocational Education and Training, Hanoi.

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The national innovation system

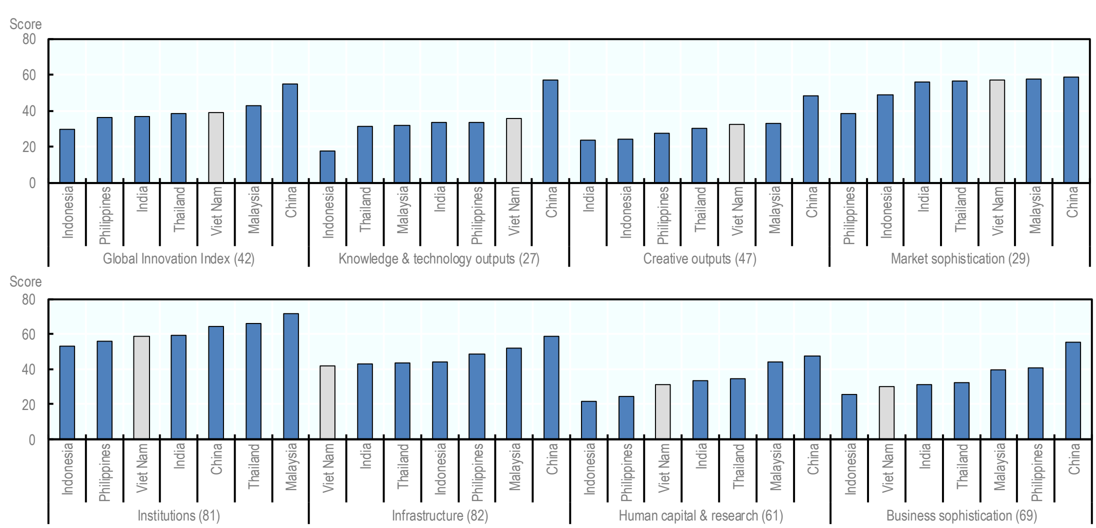
Viet Nam's national innovation system has gained strength in recent years

In 2019, Viet Nam ranked 42nd out of 129 countries in the Global Innovation Index of the World Intellectual Property Right Organisation (WIPO). Viet Nam has been improving its position in this ranking consecutively for 9 years, which has led it to become the best-ranked among lower-middle income countries and to rank 9th in the Asia-Pacific region, outperforming many regional peers with similar or higher income per capita (WIPO, 2019[48]).

As shown by the detail of Figure 3.14, Viet Nam does particularly well in the areas of "knowledge and technology outputs" and "market sophistication". The first is the result, among other things, of a large share of high and medium-high technology manufacturers (0.4%), a high number of ISO 9001 quality certifications and generous spending on computer software (0.3% of GDP). However, knowledge creation is limited due to low numbers of patent registrations and scientific publications. Market sophistication is on par with more advanced economies such as Malaysia and China thanks to the scale of Viet Nam's domestic market and credit availability (see section on debt finance). Viet Nam's creative outputs are also appreciated and characterised by a high degree of creative exports (5.9% of total trade) and a large volume of original trademarks (USD PPP 85.3 billion), combined with a high rate of mobile-phone app creation (worth USD PPP 42.9 billion).

On the downside of the WIPO ranking, there is room to improve Viet Nam's "innovation infrastructure". Information and Communications Technology (ICT) infrastructure is still undeveloped, while inefficient use of energy hampers the environmental sustainability of production (Viet Nam ranks 92nd worldwide on GDP per unit of energy use). Other areas in need of improvements are "human capital and research" and "business sophistication". While basic education is widely covered, the number of researchers per million people is only 701, Vietnamese universities are not present in any international ranking, and there are very few international students in national universities. In addition, Viet Nam's rate of knowledge-intensive employment is very low (i.e. 1.1% of the workforce and 117th position out of 129 countries) and only 22.2% of firms offer formal training. Innovation linkages are also weak, as shown by low levels of university-industry research collaboration and R&D investment from abroad.

Figure 3.14. Global Innovation Index in Viet Nam and selected countries, 2019



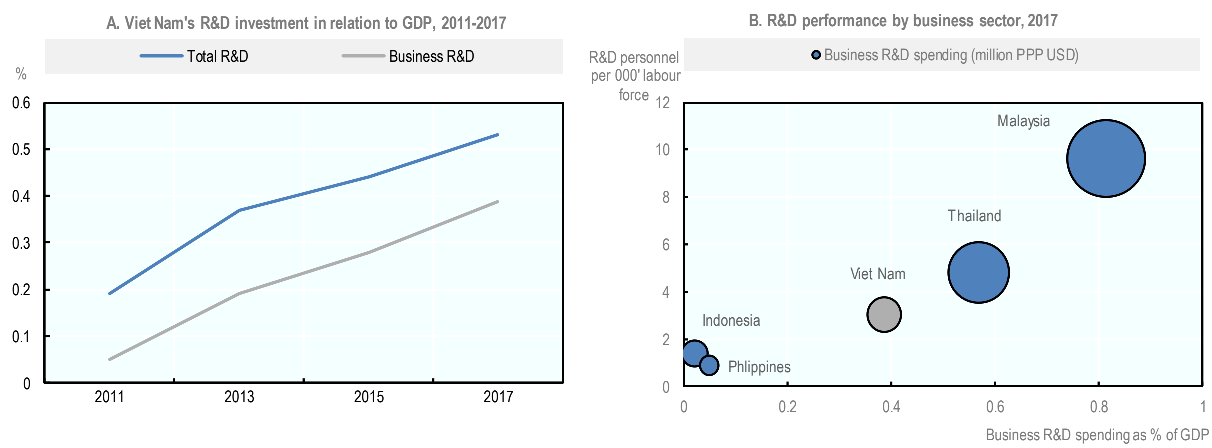
Note: Viet Nam's global ranking in parenthesis (129 economies surveyed).
Source: World Intellectual Property Organisation (2019[48]), *Global Innovation Index 2019: Creating Healthy Lives- The Future of Medical Innovation*, Geneva.

StatLink https://doi.org/10.1787/888934224714

Business R&D has increased but from very low levels

Business R&D provides the foundations for technological innovation. Between 2011 and 2017, business R&D in relation to GDP increased by nearly 8 times, from 0.05% to about 0.4%. Over the same period, total R&D increased from 0.2% to 0.5%, which means that the share of business R&D in total R&D spending went from 26% to 73%. Nonetheless, business R&D levels are still very low by international standards, not only compared to the OECD average (1.6%), but also to other ASEAN countries such as Malaysia and Thailand. The percentage of R&D personnel in the labour force is also low (and correlated with levels of R&D spending) in Viet Nam, as much as in other ASEAN countries (Figure 3.15). The limited amount of business R&D spending reflects the nascent stage of the country's R&D development capacity, where the focus of production is mostly on assembly rather than product development. A policy framework that stimulates business R&D will be important to boost technological innovation and support the upgrading of SMEs into global value chains.

Figure 3.15. R&D investment in Viet Nam and selected ASEAN countries



Note*:* Panel B: Data for the Philippines are from 2013, India from 2015, and Thailand and Malaysia from 2016.
Source: OECD calculations based on UNESCO Government Expenditures on R&D (GERD) Dataset, http://uis.unesco.org/apps/visualisations/research-and-development-spending/?fbclid=IwAR0LlprQTfTGoHyYm13vDmC5TaWgfP3pXoO01EM01g80VbUEizMquiXCD_Y.

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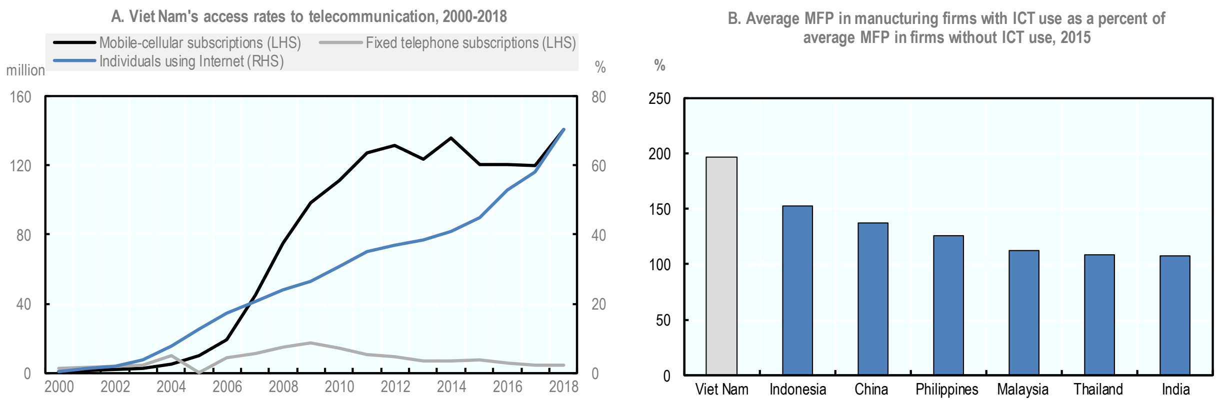
Performance in ICT offers a mixed picture

With respect to Information and Communication Technologies (ICT), Viet Nam offers a mixed picture. Viet Nam's position in the ICT Development Index of the International Telecommunication Union (ITU) has declined over the years (94th, 102nd and 108th in 2010, 2015 and 2017 respectively).[26] However, Viet Nam also ranked 5th out of 50 countries in the Global Services Location Index of 2019, 6 positions better than in 2016, mostly thanks to its software outsourcing services.[27] In addition, Viet Nam has experienced a surge in both internet and mobile phone subscriptions (Figure 3.16, Panel A).[28] Finally, Vietnamese firms seem to benefit more than their peers in the region from the use of ICT: there is in fact a nearly 200% gap in average multifactor productivity between companies using ICT and those not using ICT in Viet Nam (Figure 3.16, Panel B).

Figure 3.16. Telecommunication infrastructure in Viet Nam and selected countries



Note: Panel A: Telecommunication infrastructure measured by the rate of internet users and mobile cell subscriptions in Viet Nam. Panel B: Average multifactor productivity (MFP) in manufacturing firms with ICT use as a percentage of average MFP in firms without ICT use. Data for China (2012), Thailand (2016), India (2014).

Sources: Panel A: ITU (International Telecommunication Union). Panel B: OECD (2018[17]), *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth through Digitalisation*, OECD Publishing, Paris.

StatLink https://doi.org/10.1787/888934224752

The innovation legal framework needs to be boosted

Viet Nam has in place a regulatory framework for science and technology (S&T) enterprises which provides a definition of these enterprises and the tax and credit incentives to which they are entitled. However, the granting of S&T enterprise certificates is the responsibility of local governments, which often do not have the evaluation capacity to make an informed decision. This explains the small number of "certified" S&T enterprises in Viet Nam (in the hundreds) (Nguyen, Nguyen and Le, 2014[49]) and the fact that many potentially eligible enterprises do not even try to qualify.

Viet Nam has also recently promulgated a Law on Technology Transfer and the associated Decree 76/2018/ND-CP which set guidelines on the registration and pricing of technology transfer and on the support of technology absorption at the firm level.[29] However, although the law is a step forward, the problem of low technology absorption is mostly the outcome of inadequate technological infrastructure (see above), low human capital capacity, and weak protection of intellectually property rights (IPR).

In particular, although the national IPR law is quite complete and in accordance with international good practice, legal enforcement is weak (Sturgeon and Zylberberg, 2017[50]). As a result, it has been argued that firms often hesitate to file for patent protection because they see their ideas more often stolen than protected (World Bank/MPI, 2016[51]). In the 2019 International Property Rights Index (IPRI),[30] Viet Nam ranked 89th globally (out of 129 countries) and 6th in the ASEAN region (of the 7 ASEAN countries covered in 2019). Box 3.6 provides an example of how Singapore (ranked 15th globally and 1st in the ASEAN region) has strengthened IPR for SMEs.

Box 3.6. Singapore's approach to strengthening intellectual property rights for SMEs

The Intellectual Property Office of Singapore (IPOS), which reports to the national Ministry of Law, recognises that SMEs need assistance to understand and utilise intellectual property (IP) to their advantage. To this end, IPOS collaborates with business and trade associations to organise activities, such as IP innovation seminars. Singaporean enterprises can also participate in IP management courses run by the IPOS training subsidiary, IP Academy. In addition, IPOS provides guides and diagnostic toolkits to help SMEs understand their IP needs, and IP ValueLab, another IPOS subsidiary, offers one-to-one subsidised assistance to companies for IP audit and strategy development.

The Ministry of Trade and Industry is also active in the IP policy area. It has established the Intellectual Property Intermediary (IPI) as a subsidiary of Enterprise Singapore (the government agency which champions enterprise development) to connect Singapore-based businesses with providers of innovative solutions. The IPI technology specialists can help SMEs assess their technology gaps and find the best IP solution to meet their needs.

If SMEs have IP projects, they can also be funded through the Enterprise Development Grant (EDG), a financial assistance programme of Enterprise Singapore. Typically, an IP project under the EDG would cover: 1) audit of an existing IP management framework and development of an IP roadmap; 2) development of an IP management system; and 3) IP-related research. The grant covers up to 80% of the project costs.

Source: Intellectual Property Office of Singapore, https://www.ipos.gov.sg; Enterprise Singapore, Enterprise Development Grant, https://edggrant.com/about-edg-enterprise-development-grant-by-enterprise-singapore-esg/.

Conclusions and policy recommendations

Viet Nam has grown very rapidly in the last 20 years, mostly following an export-led and FDI-attraction growth strategy. Today, Viet Nam is a high globally integrated economy, with trade flows (the sum of imports and exports) corresponding to 200% of national GDP. However, what has been one of the main strengths of the Vietnamese economy might become a risk factor at a time when many advanced economies are reconsidering their long supply chains due to recent trade disputes and the COVID-19 pandemic.

The government of Viet Nam has made important efforts to ease business regulations, for example through Project 30, and has significantly reduced its corporate income tax (CIT) rate to levels below the OECD and ASEAN averages. As of mid-2020, the government was also considering the introduction of an SME preferential tax regime which could free up resources for business investment in domestic small enterprises. On the downside, the national tax system remains complex and the large role of state-owned enterprises hinders competition in many domestic markets.

Basic education is of high quality in Viet Nam, but there are signs of inequality in access to higher education and skills mismatches in the labour market. The TVET system, which could help address the skills mismatch problem, is not strong enough, mostly because of the lack of collaboration and co-ordination between TVET institutes and employers. Finally, in line with the stage of development of Viet Nam, the national innovation system is still at an infancy stage. Business R&D spending has increased, but from very low levels, and some innovation laws (e.g. the IPR law) need to be better enforced.

Policy recommendations on the business environment for SMEs and entrepreneurship

- Continue to simplify business regulations, including through stronger use of digital technologies, in areas where this is most needed, such as tax payment and insolvency procedures.
- Improve the national insolvency regime by reducing the overall duration of the process and by strengthening creditor protection.
- Reduce the role of the state in the economy by accelerating the privatisation of state-owned enterprises and improving their corporate governance.
- Move forward with the current plan to enforce a preferential corporate tax regime for SMEs, in particular the legal provisions introducing lower tax rates for micro and small companies.
- Consider the introduction of another presumptive tax regime for household businesses and own-account workers with the aim to encourage their formalisation.
- Use tax policy to favour stronger linkages between multinational enterprises and local SMEs, as done by other ASEAN countries (e.g. Malaysia and Singapore).
- Support access to finance for SMEs by increasing competition in the credit market, for example by legislating new types of lenders (e.g. credit co-operatives and fin-tech organisations) and by scaling up the use of credit guarantees.
- Support the activity of microfinance institutions by helping them to expand their activity (e.g. from group lending to individual lending), to use digital financial services and to focus on financial sustainability.
- Foster collaboration between TVET institutes and employers not only through the existing tax incentives but also by involving employers more closely in the design and implementation of training courses.
- Strengthen business R&D support through tax credits and grants beyond existing incentives only available to companies that qualify as "science and technology" (S&T) enterprises.
- Strengthen the innovation legal framework through better enforcement of the Intellectual Property Rights Law and adjustments to the Science & Technology Enterprise Law.

Notes

[1] In 2019, the trade flows-GDP ratio had further increased and reached 210%.

[2] A "crawling peg" is a type of fixed exchange rate regime that allows the devaluation of the national currency at a gradual rate against a foreign currency.

[3] In 2008, one of the main reasons behind the upsurge in inflation was a rapid rise in remittances from the Vietnamese diaspora, which forced the Central Bank to print money to convert mostly US dollars into Vietnamese Dong (see, for example, Financial Times, 2008, "Vietnam's inflation rate surges above 25%" (https://www.ft.com/content/674849da-2c03-11dd-9861-000077b07658). In 2011, the rise in inflation was rather a combination of factors such as the nearly collapse of the government's petrol price stabilisation fund (due to a rise in global oil prices), large currency devaluation and the announcement of an increase in the legal minimum wage (see, for example, BBC, 2011, "Vietnam's inflation rate rises to 23%", https://www.bbc.com/news/business-14642479).

4 ILO, 2019, Viet Nam to ratify ILO Convention on employment for workers with disabilities (https://www.ilo.org/hanoi/Informationresources/Publicinformation/newsitems/WCMS_679336/lang--en/index.htm).

5 Minimum wages in Viet Nam are determined according to four regions set by the national government. Region I includes urban districts of central cities; region II includes peripheral, suburban districts of central cities and districts of provincial cities; region III includes provincial towns; region IV encompasses the rest of rural areas. Updated details of the regional administrative units can be found in the appendix of Decree 90/2019/ND-CP.

6 European Parliament. 2020. EU-Vietnam free trade deal gets green light in trade committee (https://europarl.europa.eu/news/en/press-room/20200121IPR70703/eu-vietnam-free-trade-deal-gets-green-light-in-trade-committee).

7 OECD calculations based on World Bank's World Integrated Trade System: Viet Nam's Trade flow statistics (https://wits.worldbank.org/CountryProfile/en/Country/WLD/Year/1988/TradeFlow/EXPIMP).

8 Foreign ownership of more than 51% will switch company status from domestic to foreign-owned, which comes with some stock-market and sector constraints (e.g. foreign-owned companies are not allowed to operate in some specific sectors such as distribution of rice, tobacco, crude oil, pharmaceuticals, etc.).

9 In the case of Viet Nam, local sourcing is strongest in textiles, followed by the metals sector and electronics. However, in the case of electronics, most local sourcing consists of plastic components rather than chips and other more sophisticated inputs.

10 For further information on Resolution 136/NQ-CP (enterprise registration procedure), see: https://luatvietnam.vn/dau-tu/nghi-quyet-136-nq-cp-chinh-phu-119321-d1.html#noidung.

11 This applies to the World Bank Doing Business indicators, but also to the Global Competitiveness Index of the World Economic Forum (WEF), the Global Innovation Index of the World Intellectual Property Organisation (WIPO) and the E-Government Development Index of the United Nations (UN). In 2020, the government aimed for an improvement by 10 positions the in World Bank Doing Business Index, 5 positions in the WEF Global Competitiveness Index, 3-4 positions in the WIPO Global Innovation Index, and 10-15 positions the UN E-Government Development Index (see Resolution 02/NQ-CP, issued on 1 January 2020, on “Continuing to perform key tasks and solutions to improve the business environment and national competitiveness in 2020”, http://www.chinhphu.vn/portal/page/portal/chinhphu/hethongvanban?class_id=509&_page=1&mode=detail&document_id=198738).

12 According to the Economist Intelligent Unit, the value of industrial output grew by more than 13% year on year in the first six months of 2010, and the FDI sector posted a growth rate of 17% (cited in Schwarz, 2010[89], “Project 30: A Revolution in Vietnamese Governance?”, Brookings Institution (https://www.brookings.edu/research/project-30-a-revolution-in-vietnamese-governance/).

13 Viet Nam also applies some special CIT regimes. Similar to other emerging economies, higher CIT rates are applied to oil and gas (32% to 50%) and mineral resource extraction (40% to 50%). In addition, lower CIT rates down to 10% are reserved for enterprises investing in geographical areas with socio-economic difficulties, economic zones or hi-tech parks or in specific domains such as high technology, scientific research and technological development, education and training, healthcare, culture, sport, and the environment (PwC, 2020[58]).

14 Viet Nam's total tax and contribution rate is reported at an average of 37.6% of profits.

15 Viet Nam Finance Times, 2019, Lower tax for SMEs is the necessary leverage for the support of enterprise development, http://thoibaotaichinhvietnam.vn/pages/kinh-doanh/2019-05-24/giam-thue-cho-doanh-nghiep-nho-va-vua-don-bay-thiet-thuc-ho-tro-doanh-nghiep-phat-trien-71810.aspx.

16 Estimates on total SME loans are from the National Centre for Socioeconomic Information and Forecast (NCIF).

17 Viet Nam Financial Times. 2019. Enhancing SMEs' access to finance (http://tapchitaichinh.vn/ngan-hang/nang-cao-kha-nang-tiep-can-tin-dung-ngan-hang-cua-doanh-nghiep-nho-va-vua-306222.html).

18 Another survey by UNU-WIDER/CIEM (2016[60]) confirmed these results, with 23% of Vietnamese firms considering lack of capital and access to finance as the main obstacles, down from 30% in 2013 and 45% in 2011.

19 In another study, 39% of SMEs were reported to have a loan (Dang and Chuc, 2019[59]). However, this study does not take into account credit lines such as overdraft facilities.

20 Property comprises 38.5% of the collateral for bank loans, while 26.5% of collateral is in the form of capital assets.

21 Earmarked loans are loans allocated for a specific policy objective, which can be SME growth, rural development or something else. In Viet Nam they are also called "policy loans".

22 Financial Times. 2019. Venture capital piles into Vietnamese technology companies, https://www.ft.com/content/cbe426bc-adc4-11e9-8030-530adfa879c2.

23 Various post-test adjustments result in lower test scores, although Viet Nam remains a positive outlier given its GDP per capita (Glewwe et al., 2017[66]). Reasons given for this success include the communication of clear student learning goals to all schools and school subsystems and the frequent monitoring of teacher and school performance (McAleavy, Tran and Fitzpatrick, 2018[65]). Other surveys, such as the Trends in International Mathematics and Science Study (TIMSS), show consistent results.

24 School students who fail to pass high-school entry exams have no other choice than going to more expensive private schools, which means many of them drop out of high school.

25 For example, the government offers corporate income tax (CIT) breaks to companies that provide training to certain categories of workers (e.g. women and ethnic minorities) or in deprived economic regions. In addition, tax exemptions also apply to company donations to TVET organisations.

26 The ICT Development Index is based on three indicators, namely ICT access, ICT use and ICT skills.

27 Kearney Global Services Location Index 2019: https://www.kearney.com/digital-transformation/gsli/2019-full-report.

28 The mobile subscriptions is over 100 percent because one person may own more than a mobile phone or SIM card. There has been a decline in the rate of mobile phone subscriptions in recent years due to tighter control by the Ministry of Information and Communications (MIC) on the providers of SIM cards.

29 The Law on Technology Transfer is Law 07/2017/QH14: https://www.most.gov.vn/en/Pages/Detaildocument.aspx?vID=45.

[30] The International Property Rights Index (IPRI), produced by the Property Rights Alliance, scores countries on the strength of the institutions underlying the property rights regime: the legal and political environment (LP), physical property rights (PPR), and intellectual property rights (IPR), covering 129 countries, https://www.internationalpropertyrightsindex.org.

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4 The governance of SME and entrepreneurship policy in Viet Nam

This chapter offers an overview of governance arrangements in SME and entrepreneurship policy in Viet Nam. The chapter highlights how SME policy has a recent history in Viet Nam dating back to the early 2000s. More recently, the SME Support Law (2018) signals the commitment of the government to the promotion of the domestic SME sector and sets out some important measures for its further development. Some aspects of the SME Support Law are working well (e.g. incubator and cluster development), others may require some adjustments (e.g. formalisation of household businesses), while others are still waiting for formal approval by the Parliament (e.g. SME preferential taxation). SME and entrepreneurship policy sees the involvement of different ministries and provincial governments in Viet Nam, thus calling for appropriate institutional co-ordination arrangements. In this regard, the role of the SME Development Council could be revamped with the aim to enhance policy co-ordination. Finally, there is adequate monitoring of SME support measures, but a lack of more rigorous impact evaluations.

The SME and entrepreneurship policy framework

SME policy has a recent history in Viet Nam

Small and medium-sized enterprises (SMEs) have only recently become a policy target in Viet Nam, notably through a national law in 2001 which first set the SME legal definition and the legal foundations for an SME Development Agency and the SME Development Council.[1] Later, between 2009 and 2010, the government set up the SME Development Fund and the Credit Guarantee Fund, as well as a number of other programmes addressing regulatory simplification (e.g. Project 30, see chapter 3) and access to land and business premises (CIEM/MRI, 2016[2])[2] In 2012, with support from the Asian Development Bank (ADB), the government issued its first five-year SME policy plan, *i.e.* the SME Development Plan 2011-2015,[3] which set out the legal framework for the SME Assistance Fund (ADB, 2017[1]).[4] As part of its SME policy, the national government has also set targets in terms of number of registered businesses. The 2016 Enterprise Development Policy set a target of at least 1 million registered enterprises by 2020,[5] while the Prime Minister's Plan for the Sustainable Development of the Business Sector set a further target of at least 1.5 million registered enterprises by 2025 and 2 million by 2030.[6]

The SME Support Law signals the commitment of the government to SME development

Today, the activity of Vietnamese SMEs is guided by the 1999 Enterprise Law and by the 2018 SME Support Law. The former deals with everything which has to do with registration and incorporation, governance and operations of business enterprises regardless of their size. The latter signals the attention of the government for the domestic SME sector and addresses the following policy and programme areas for enterprises that comply with the national legal SME definition (see Table 2.1, chapter 2):[7]

- Access to credit (e.g. credit subsidies and the credit guarantee fund);
- Preferential tax and regulatory regimes (e.g. simpler and lower corporate income taxation for SMEs and simplified tax administrative procedures and accounting regimes for micro-enterprises);
- Access to business premises (e.g. rent subsidies for SMEs in industrial zones, high-technology zones, and industrial clusters);
- Assistance in technology acquisition and technology development (e.g. intellectual property protection and development; support for research, training and technology transfer; tax incentives for public-private partnerships to establish incubators, co-working spaces, and technical labs);
- Access to markets (e.g. rent subsidies and lower corporate taxation for companies in supporting industries);
- Access to information, consultancy and legal issues (e.g. publication of relevant policy information on the national SME web portal and ministerial websites);
- Assistance with human resource development (e.g. access to subsidised training courses).

Most provisions in the SME Support Law apply to all SMEs, such as access to the credit guarantee fund and to subsidised training and advisory services. A preferential tax regime, if and when approved by the Parliament (see chapter 3), will also apply to all SMEs. However, the law also offers additional benefits to specific target groups such as innovative start-ups, SMEs that participate in value chains and clusters, and household businesses. The latter, in particular, are expected to receive a temporary tax relief from corporate income taxation if they become formally registered enterprises (see chapter 3 for more details), while SMEs in global value chains (GVCs) and clusters are expected to benefit, in co-ordination with the Supporting Industry Law, from enhanced access to credit, land and premises (through rental subsidies), among others.

The presence of an SME Support Law is a positive development for Viet Nam not only because of the specific programmes that the law introduces, but also because of the emphasis it places on domestic

SMEs as a possible source of future growth. On the downside, the SME Support Law does not cover certain policy areas relevant to entrepreneurship development (e.g. entrepreneurship education and youth entrepreneurship)[8], and there are other important laws that affect SMEs (e.g. the Investment Law, the Enterprise Law, the Science and Technology Law and the Tax Law) that have not gone through a regulatory impact assessment (RIA) to evaluate their effects on SMEs.[9] Viet Nam's main laws and programmes, other than the SME Support Law, with a direct impact on SMEs and entrepreneurship are briefly outlined in Table 4.1.

Table 4.1. Main national policies and programmes affecting SMEs (besides the SME Support Law)

Policy document	Policy objectives
Technology and innovation	
National Programme on Technology Innovation through 2020 (Prime Minister Decision No. 677/QD-TTg dated 10 May 2011) - Ministry of Science and Technology	One of the aims is to support SMEs to improve their technologies. This includes building a database on new and advanced technologies and on technology experts for SMEs; supporting SMEs in applying IT and building communication systems; providing training on technology management and administration to engineers, technicians and managers of SMEs. The target of this programme is to increase the number of enterprises renewing technologies by an average of 15% per year, of which 5% will apply high technology (no specifics about which percentage of these will be SMEs).
Prime Minister Decision No. 844/QD-TTg of 18 May 2016, on Approval for "Assistance Policies on National Innovative Start-up Ecosystem to 2025" - to be implemented by the Ministry of Science and Technology	It intends to create favourable conditions for the development of young enterprises (aged less than 5) that have the potential for rapid growth through the utilisation of intellectual property assets, technology and new business models. It offers supporting activities such as education, incubation and networking; sets up a national start-up ecosystem portal; provides funding to organisations that supply services, facilities, technical infrastructure, telecommunications services and investment in start-ups. The target is to assist 2 000 innovative start-up projects and 600 start-ups by 2025, 100 start-ups of which to be supported under a scheme financed by venture investors (estimated amount of VND 2 trillion).
Supporting industries	
Decision No. 68/QD-TTg dated January 18, 2017 approving the Programme on Development of Supporting Industries during 2016-2025 - Ministry of Industry and Trade	It promotes and supports industrial enterprises to become suppliers of domestic and foreign customers (in three fields: components and spare parts; textiles, garments and footwear; high-tech industries) and attracts foreign investment in supporting industries. Targets include: 1 000 Vietnamese enterprises participating in the Programme; 130 of which become direct suppliers of manufacturing enterprises or assemblers of complete products; 2 000 supporting-industry enterprises given consultancy and training to meet the manufacturing requirements of global value chains, of which 1 500 successfully apply these standards; 1 000 enterprises supported on R&D, technology transfer, and experimental manufacturing of components, spare parts and material, of which 500 successfully apply the new technologies and processes. Total State budget allocation of VND 1.736 trillion.
Human resource development for SMEs	
Circular No. 05/2019/TT-BKHDDT dated 29 March 2019 issued by the Ministry of Planning and Investment and Circular No. 49/2019/TT-BTC dated 8 August 2019 issued by the Ministry of Finance on management and use of state budget to support human resources development of SMEs.	It offers detailed guidance on the planning, organisation, management and funding of training assistance and activities for SMEs (training courses on starting a business, business management, and specialised business administration).
Financing and investment in SMEs	
Decree No. 38/2018/ND-CP dated 11 March 2018 on investments in small and medium-sized start-up enterprises	Following up to Article 19 of the SME Support Law (investment in start-ups), this decree provides guidelines for investments in small and medium-sized start-up companies (incentives for private investors); the establishment, management and operation of venture capital funds; the use of science and technology development funds; and for local government budgets to make investments in start-ups.

Entrepreneurship in the education system	
Prime Minister Decision No. 1665/QD-TTg dated 30 October 2017 approving the Scheme for Supporting Students' Start-ups to 2025 - Ministry of Education and Training and Ministry of Labour, Invalids and Social Affairs.	All higher education institutions to offer entrepreneurship and innovation learning/training in their curriculum, either as elective or required courses or programmes. Activities include promoting entrepreneurship using media, conferences, festival events, forums, websites, etc.; training lecturers, coaches, mentors in entrepreneurial and innovation learning; developing and publishing related learning materials. Followed up by: 1) the Ministry of Education and Training "Supporting Student Entrepreneurship 2017-2020 with a Vision towards 2025" plan (Decision No. 1230/QD-BGDDT of 30 March 2018) to promote entrepreneurship and equip students in educational and training establishments with knowledge and skills on entrepreneurship; and 2) the Ministry of Labour, Invalids and Social Affairs' (MOLISA) strategic plan to integrate entrepreneurship education at vocational colleges and schools.
Youth entrepreneurship	
National Youth Start-up Programme 2016-2021– implemented by the Viet Nam Youth Federation (VYF) Supporting Centre for Youth Start-ups (SYS), established in 2017	It aims to foster start-up activities among young people through advice and support, opportunities to gain experience and receive assistance from entrepreneurs, and co-operation with other organisations in implementing ideas related to start-ups.
E-commerce	
National E-Commerce Development Programme (2014-2020) (Prime Minister No. 689/QD-TTg dated 11 May 2014) – Viet Nam Electronic Commerce and Information Technology Agency (VECITA) under the Ministry of Industry and Trade.	It encourages the start-up of e-commerce enterprises, the integration of e-commerce by existing enterprises, the deployment of e-commerce applications and sales solutions for SMEs, and the development of credible cross-border e-marketplaces. Policy target: 50% of enterprises to have an Internet presence by 2020 and business-to-business (B2B) transactions to account for 30% of import-export turnover.
Productivity and quality	
Prime Minister Decision 712/QD-TTg dated 21 May 2010 approving the National Programme on Improving of productivity and quality of products and goods of Vietnamese enterprises through 2020 - Ministry of Science and Technology	It aims to develop and apply a system of standards, technical regulations, management systems, models and tools to improve the productivity and quality of Vietnamese enterprises. A strong focus is on national standards: 6 000 new national standards to be developed, 60% of which to be aligned with international standards. Targets: 100 000 enterprises guided to apply advanced scientific and technological solutions and to apply management systems, models and tools to improve productivity and quality (e.g. lean management, 5S, Total Productive Maintenance, ISO standards). There is no mention in this decision of SMEs and specific targets for their inclusion.

Sources: Vietnamese government's websites.

Gaps in the SME and entrepreneurship policy framework

This section looks into gaps in Viet Nam's SME and entrepreneurship policy framework, which includes not only the SME Support Law, but also other laws and policies that affect SMEs, as detailed in Table 4.1.

SME digitalisation has not received enough attention

Although digitalisation is increasingly important for SME development, this topic does not feature in the SME Support Law. According to the World Economic Forum (WEF) Country Readiness Index for the future of production, Viet Nam is at a nascent stage of readiness for the 4th Industrial Revolution (WEF, 2018[5]).[10] Furthermore, similar to other ASEAN countries, Viet Nam is also still lacking the technology infrastructure, capabilities and innovation to fully capitalise on the 3D printing technology, with most manufacturing companies lacking the capital and knowledge to set up their own 3D printing and prototyping facilities (WEF, 2018[5]).

Industry 4.0 has recently become a government priority. In 2017, the Prime Minister issued a directive on this issue, tasking several ministries with specific policy actions;[11] however, the directive makes no specific mention of SMEs. Since the Central Institute for Economic Management (CIEM) was in the process of drafting a National Strategy for Industry 4.0 in 2019, an effort should be made to include SMEs as a target group of this strategy.

Vietnamese policies in favour of e-commerce are more developed. Some of the objectives of the National E-Commerce Development Programme (2014-2020) are to encourage the start-up of e-commerce enterprises, facilitate the integration of e-commerce by existing enterprises, and develop credible cross-border e-marketplaces. The target was for 50% of enterprises to have an Internet presence by 2020 and for B2B transactions to account for 30% of import-export turnover (see also Table 4.1). In this case, too, there were no targets set for SME representation.

The government could develop a comprehensive set of policy measures to support the digital transformation of SMEs, from encouraging the use of e-commerce, to helping SMEs introduce automation in the production process, to assisting SMEs in the use of software programmes such as Enterprise Resource Planning (ERP) or Customer Relationship Management (CRM). These measures could form part of a new SME Digitalisation Strategy or could be integrated into existing programmes, such as the National Programme on the Development of Supporting Industries, the National Programme on Technology Innovation, or the National Programme on Improving the Productivity and Quality of Vietnamese Enterprises.

There could be stronger co-ordination in youth entrepreneurship support

The government has recently implemented some important programmes to help young people consider entrepreneurship as a career option, as shown by the Scheme to Support Student Start-ups (Project 1665), the National Youth Start-up Programme 2016-2021, and the National Innovative Start-up Ecosystem initiative (Project 844). The existence of these programmes makes much sense in Viet Nam, as about 40% of the population is under the age of 25, and 45% are under the age of 30.

However, at present, there is no formal co-ordination among these three programmes. Moreover, the Viet Nam Youth Federation, responsible for implementing the National Youth Start-up Programme, has limited staff resources and mostly relies on partnerships to deliver its range of programme activities. The Ministry of Planning and Investment (MPI) could explore the feasibility of building collaborative linkages between the implementing partners of these three programmes to achieve a more cohesive approach to youth entrepreneurship policy.

The policy objective of household business formalisation requires new thinking

As mentioned in chapter 3, the SME Support Law offers incentives to encourage household businesses to become formal (i.e. to obtain an Enterprise Registration Certificate, ERC, under the Enterprise Law), such as an exemption from the corporate income tax for two years, exemptions from enterprise registration fees and licensing fees for three years, free consultancy on administrative procedures, and reduction of or exemption from land rental, land levy and the levy on non-farming land for a limited period of time.

However, these concessions have not yet been able to transform many household businesses into formal enterprises. A simplification in the transition and registration procedures, including allowing the re-use of available licenses for business households/establishments, could help accelerate the formalisation process, something that the government of Viet Nam was considering at the end of 2019.[12] Above all, a new simplified and separate corporate tax regime for household businesses could be conceived, following the example of Brazil's *Micro Empreendedor Individual* (MEI), on condition that this regime would only apply to household businesses employing a very small number of workers (see chapter 3).

The existing regulatory impact assessment should include an SME test

The 2008 Law on Legal Normative Documents and the follow-on 2015 Law on the Promulgation of Legislative Documents require that all draft laws adopted by the National Assembly and decrees/policies adopted by the government go through a regulatory impact assessment (RIA) before being submitted to the final decision makers. The RIA report is to focus on the following aspects: i) problem that the new law is expected to solve; ii) objectives of the proposed policy; iii) policy alternatives to solve the same problem; and iv) best policy option to solve the problem (Vo and Nguyen, 2016[4]). While these are all important sections of a RIA, there is currently no requirement to assess the impact of new laws or revised regulations on SMEs. Furthermore, the RIA is not yet uniformly applied (OECD/ERIA, 2018[3]).

In many OECD countries, governments make use of the SME Test as part of the RIA process. The SME Test typically involves consultations of the government with SME representative organisations, an in-depth analysis of the impact of new legislation on SMEs and suggestions for remedial measures if the new legislation is expected to have a negative impact on SMEs. The SME Test should be adopted as part of the RIA regime in Viet Nam and should be applied to the Enterprise Law, the Investment Law, the Science and Technology Law and other laws that potentially impact on SMEs but that are currently blind to enterprise-size considerations.

Main institutions involved in SME and entrepreneurship policy

The Ministry of Planning and Investment and the Agency for Enterprise Development are the leading players in SME and entrepreneurship policy

The Ministry of Planning and Investment (MPI) has the lead responsibility for SME and entrepreneurship policy in Viet Nam. Within the MPI, the Agency for Enterprise Development (AED) is designated as the central government agency co-ordinating SME policy.[13] In particular, the AED is to elaborate documents, policies and laws on supporting SMEs and to submit them for approval by the competent authorities; guide ministries and localities in the implementation of the SME Support Law; collaborate with relevant ministries and agencies to formulate the state budget for the implementation of SME programmes; and organise the periodic monitoring of SME support nationwide. The AED also has responsibility for the Assistance Centres for SMEs in the North (Ha Noi), Central Region (Da Nang) and the South (Ho Chi Minh City), commonly referred to as TACs from their previous name of Technical Assistance Centres (see also chapter 7).

Several other ministries and agencies are also involved in SME and entrepreneurship policy

In addition to the MPI, the AED and the TACs, the SME Support Law outlines the roles of other state ministries and agencies in delivering policy support to SMEs, such as the Ministry of Science and Technology (MOST), the Ministry of Industry and Trade (MOIT) and the Ministry of Finance. Furthermore, under the scope of other national laws, other ministries and national agencies are involved in SME policy support, such as the Ministry of Education and Training (MOET), the Ministry of Labour, Invalids and Social Affairs (MOLISA) or still the Ministry of Justice. In a large country like Viet Nam, provincial governments (People’s Councils and Committees) also play a critical role in the implementation and monitoring of SME policies at the local level. Table 4.2 provides a summary of the main government institutions involved in SME and entrepreneurship policy in Viet Nam.

Table 4.2. Main government institutions involved in SME and entrepreneurship policy in Viet Nam

Ministry/agency/other	Responsibility relative to SME policy and support measures
Ministry of Planning and Investment (MPI)	It has the main responsibility for national SME policy, formulating and executing plans for SME assistance, training officials and employees in SME policy, and reporting to the Government and Prime Minister on the implementation of SME policy. It is also responsible for the delivery of the SME Development Fund.
Agency for Enterprise Development (AED)	Under the MPI, it is designated as the central government agency co-ordinating SME policy.
Assistance Centres for SMEs (former Technical Assistance Centres, TACs)	Managed by the AED, the three TACs – Ha Noi (North), Ho Chi Minh City (South) and Da Nang (Centre) – have the mission in their respective regions to organise and implement SME support policies and programmes, including management training and business incubators.
Ministry of Finance	It provides instructions on tax administrative procedures and the accounting regime for SMEs; has responsibility for establishing preferential tax policies and incentives for SMEs and innovative start-ups; develops the regulations of the SME Guarantee Funds; and supervises the financial performance of the Viet Nam Development Bank (VDB).
Ministry of Industry and Trade (MOIT)	It implements the Programme on the Development of Supporting Industries 2016-2025; instructs SMEs on how to join business clusters and value chains; promotes seminars to help SMEs to participate in the distribution system; co-ordinates with existing medium-sized and large retailers in the domestic market. This Ministry also operates the Industrial Promotion Centres and the Trade Promotion Centres located in each of the 63 provinces and is responsible for national export promotion efforts through the Viet Nam Trade Promotion Agency (VIETRADE).
Ministry of Science and Technology (MOST)	It is responsible for funding the National Innovative Start-up Ecosystem to 2025 Scheme, among others. It provides instructions on the establishment of incubators; assists SMEs in strengthening their technological capacity; supports linkages of SMEs with research institutes and universities; provides science and technology information for SMEs; provides grants and preferential loans for R&D, innovation and technology transfer through the National Technology Innovation Fund (NATIF).
National Agency for Technology Entrepreneurship and Commercialisation Development (NATEC)	Under the MOST, the Agency advises and assists the Minister on developing the technology market and on supporting the establishment and development of science and technology (S&T) enterprises. It shares responsibilities for the implementation of the National Innovative Start-up Ecosystem, creating a national start-up portal to link policymaking agencies, ministries, localities, start-up incubators, investors and start-up businesses within this ecosystem.
Ministry of Information and Communications (MIC)	It introduces SMEs to e-commerce and facilitates their access to online platforms.
Ministry of Education and Training (MOET)	It implements the "Supporting Student Entrepreneurship 2017-2020 with a Vision towards 2025" plan to equip students in educational and training establishments with knowledge and skills on entrepreneurship.
Ministry of Labour, Invalids and Social Affairs (MOLISA)	It is responsible for the Technical and Vocational Education and Training (TVET) system. It implements a strategic TVET plan to integrate entrepreneurship education at vocational colleges and schools, including teacher training programmes, entrepreneurship training for students, and development of training materials and knowledge resources.
Ministry of Justice	It provides legal information and advice for SMEs, as per Decree No. 55/2019/ND-CP dated 24 June 2019.
State Bank of Viet Nam (SBV)	It organises the implementation of government policies to increase the volume of SME lending.
Viet Nam Development Bank (VDB)	Established in 2006, it implements the government's investment and export credit policies.
Viet Nam Youth Federation Supporting Centre for Youth Start-ups (SYS)	It implements the National Youth Start-up Programme 2016-2021 to foster start-up activities among young people in collaboration with the Viet Nam Chamber of Commerce and Industry (VCCI).
Central Institute of Economic Management (CIEM)	It is the think-tank of the MPI. It undertakes analysis on enterprise and SME development and drafts laws, including the SME Support Law and the Enterprise Law.

People's Provincial Councils	They introduce policies and distribute resources to assist SMEs in provinces and supervise compliance with the SME Support Law at the provincial level.
People's Provincial Committees	They formulate, implement and evaluate plans for assistance to SMEs in the provinces. Priority is given, in line with national guidelines, to supporting innovative start-ups, promoting household businesses to transform into legally registered enterprises, and encouraging SMEs to join clusters and value chains.

Sources: *Law on the Support of Small and Medium-Sized Enterprises*, Law No. 04/2017/QH14 of 12 June, National Assembly, Ha Noi, and Decree No. 39/2018/ND-CP dated March 11, 2018 on guidelines for the Law on support to small and medium enterprises".

The large number of ministries and agencies involved in SME and entrepreneurship policy has both positive and negative consequences. When policy directives are issued by the Prime Minister, there is often the requirement for all relevant ministries to develop their own plans and programmes to implement the directives. With respect to SME policy, this means that each ministry has the responsibility to make provisions for SMEs, which is positive. On the downside, policy co-ordination is challenging; this role, by the law, falls within the responsibility of the AED, which however does not have enough resources to undertake it in an appropriate way.

Implementation of SME and entrepreneurship policy

The government monitors the implementation of the SME Support Law through annual reports

The AED closely monitors the implementation of the SME Support Law. The last implementation report was released in March 2020 and mentioned how the government had until then issued a total of 5 decrees, one directive and 7 circulars to implement the SME Support Law. Moreover, as of March 2020, 50 out of the 63 Vietnamese provinces operated SME support programmes. The implementation report of the SME Support Law presents information by policy area. The most relevant of these programmes are further described and assessed in chapter 5 of the report.

- *Taxation and accounting rules*: As mentioned in chapter 3, the Ministry of Finance is still hammering out the last details of a preferential corporate income tax (CIT) regime for SMEs. On the other hand, the simplification of accounting procedures for micro-enterprises and the application of online tax registration, collection and returns have already been enforced. Some provinces have also offered free accounting software programmes to newly established companies, while the province of Ha Noi offers one year of free-tax consulting.
- *Household business formalisation*: Most provinces have organised sessions to provide information and advice to household businesses on how to convert into formally registered enterprises. Some provinces have also set targets for the number of converting household businesses at the local level, but initial numbers have been disappointing. Obstacles to formalisation include the extra burden of tax payment and accounting rules with which household businesses owners are not familiar.
- *Access to finance*: The State Bank of Viet Nam (SBV), the SME Development Fund (SMEDF) and commercial banks have all taken initiatives to ease access to finance for SMEs. In June 2019, for example, the SBV established the Borrowers Connecting Portal to ease the intermediation between borrowers and lenders and to improve the transparency of credit products. Commercial banks have also introduced new procedures that are meant to facilitate loan applications by SMEs. For example, the QR code – a secure and fast online transaction method – had reached 5.32 million transactions worth VND 7.7 billion by the end of October 2019, experiencing an average growth of 64.3% in volume over the first two quarters of 2019. In addition, the SBV and the Ministry of Finance

have issued three circulars to guide, monitor and evaluate the operations of Credit Guarantee Funds (CGF).

- *SME innovation*: The MOST operates many programmes to support SME innovation. For example, the National Innovation Fund has supported 27 projects through VND 268 billion and, as of March 2020, was considering to invest VND 686 billion in another 52 projects, while the Programme to Develop Intellectual Property has helped 120 SMEs to manage IP and 51 SMEs to commercialise inventions. The MOST has also organised 70 training courses for over 3 500 SMEs as well as many events to connect entrepreneurs, such as Tech-mart, Tech-fest, Tech-demo, etc.
- *Innovative start-ups*: The MPI has recently established the National Innovation Centre to promote the national start-up ecosystem, has organised many events to attract foreign experts and investors into Vietnamese start-ups, and has drafted official guidelines for the establishment of SME Development Funds. By March 2020, five private funds had been established with a total commitment of VND 5.32 billion. The Ministry of Information and Communications (MIC) has also engaged in the promotion of the national start-up ecosystem through the Viet Nam Tech Enterprise Development Fund and the creation of the “Make in Viet Nam” brand. The MOST has provided 244 training courses for 23 000 participants in the innovative start-up ecosystem, while the MOET has partnered with the Youth Union to organise a number of events such as the Start-up Funding Camp and the Start-up Hunt. The former has attracted more than 10 000 students, while the latter has granted VND 670 million to the top three winning ideas.
- *Human resources*: The MPI has co-ordinated with educational institutions and incubators to provide start-up training for youth, students, household businesses and innovative start-ups. In 2019, VND 35 billion were invested in start-up and business administration training courses. The SME Online Training Portal was also established in August 2018. Ha Noi and Thanh Hoa are the most active provinces in funding start-up training programmes.
- *Market expansion*: In 2018, the Ministry of Industry and Trade (MOIT) spent VND 90 billion in SME-related activities, including the expansion of traditional craft trade via training, technology upgrading and national and international marketing. The MOIT also co-ordinates with the Ministry of Foreign Affairs (MOFA) to promote trade and investment treaties and to train and guide exporting SMEs to defend against international lawsuits.
- *Industrial clusters and supply chains*: The MPI has collaborated with USAID, the US international co-operation agency, in a programme called LinkSME which aims to strengthen the capacity of local SMEs to tap into supply chains and production networks through the enhancement of intermediary organisations (e.g. SME and trade associations).
- *Information and legal advice*: The MPI is upgrading its National Portal for Supporting SMEs and is establishing a national network of consultants, based on sector expertise. Furthermore, the Ministry of Finance has provided guidelines on the use of state funding to support SME consulting and the Ministry of Justice has proposed a new Decree on legal consulting for SMEs.
- *Land and infrastructure*: The Ministry of Natural Resources and Environment (MONRE) has supported provincial governments in the implementation of preferential land distribution and leasing plans for SMEs, especially those operating in industrial clusters and agricultural and fishery sectors.
- *Women’s entrepreneurship*: Even though the SME Support Law indicates preferential treatment for women-owned SMEs, these companies have benefited from policy support only to a limited extent. The Women’s Union has provided support to about 300 000 women, who have established 845 new businesses, and has connected about 25 000 women to credit institutions for a total lending volume of VND 237 billion.

SME policy implementation needs to be strengthened

Although the SME Support Law provides a useful legal framework, its implementation could be further strengthened. Some of the problems reported in the AED implementation reports include low awareness of the law among SMEs; delays in executing certain programmes; low take-up of certain policy measures; limited resource allocation for support policies in some localities; and inconsistent policy delivery across localities.[14] It has also been reported that many SMEs find it difficult to make use of existing policies, mostly because relevant information is either scant or scattered across different organisations, application procedures are sometimes complex, and eligibility requirements are difficult to meet.

More broadly, the implementation of SME policies appears to be fragmented across a large number of programmes, decisions, decrees and circulars, making it difficult to discern the overall policy framework. In this regard, the elaboration of an integrated SME Development Plan could help clarify existing support policies as well as their objectives and programme elements. Since the conclusion of the SME Development Plan 2011-2015, which was backed by the ADB, there has been no follow-on document, partly because the government was working on the elaboration of the SME Support Law. Now that this law has been drafted and approved, the government could revert to the preparation of five-year SME Development Plans to provide entrepreneurs and other interested parties with a comprehensive overview of the national SME policy framework, which would include the timeline of the different programmes, the organisations responsible for implementation, and key performance indicators.

Co-ordination of SME and entrepreneurship policy

Inter-ministerial co-ordination in SME and entrepreneurship policy could be more effective

SME and entrepreneurship policies always cut across different areas, calling for strong institutional co-ordination to make policies effective. This is especially true in Viet Nam where many government ministries and agencies are involved in SME and entrepreneurship policies and where provincial governments play an important role in adapting national policies to local conditions and monitoring policy implementation. In Viet Nam, the task of inter-ministerial co-ordination of SME policies belongs to the SME Development Promotion Council, which has been in place since 2001 and whose role is to advise the Prime Minister on policies and mechanisms to encourage SME development.[15] The Council is to meet twice a year and report to the Prime Minister on the implementation of SME and entrepreneurship policies. The representation of Viet Nam's SME Development Promotion Council is broad in scope and not dissimilar from the membership of similar Councils in other countries.[16] However, the Vietnamese Council has not worked effectively and has met only rarely. In addition, ministerial members have often delegated junior staff with no decision-making power to attend Council meetings on their behalf. Finally, the AED has not received the necessary resources to perform properly its role of Permanent Secretary to the Council. Due to these reasons, the Council has basically become defunct.

Ministerial or high-level committees and councils are a common practice in many countries, particularly those operating within the parameters of an SME Law. In the ASEAN region, Indonesia, Malaysia, Thailand, and the Philippines each have active high-level SME promotion councils. Of particular relevance to Viet Nam is the Micro, Small, and Medium Enterprise Development (MSMED) Council of the Philippines (Box 4.1). Created in 1991 under the Magna Carta for Micro, Small and Medium Enterprises, the Philippines' MSMED Council has a specific mandate to co-ordinate and integrate various government and private-sector activities relating to SME development into a unified national policy framework, which is not currently the case in Viet Nam. The government of Viet Nam could consider revamping its SME Development Promotion Council, expanding its mandate to play a stronger cross-ministerial co-ordination role, and providing adequate resources to the AED to play its role of Secretariat.

Box 4.1. The Micro, Small and Medium Enterprise Development (MSMED) Council in the Philippines

The MSMED Council, as per the Magna Carta for Micro, Small and Medium Enterprises (Republic Act No. 9501) is responsible for the promotion, growth, and development of MSMEs in the Philippines through the co-ordination of policy and programmatic efforts. It is attached to the Department of Trade and Industry (DTI). The specific functions of the Council as laid out in the Act and expanded in further amendments of the Act include the following:

- Help establish the needed environment and opportunities conducive to the growth and development of the MSME sector.
- Recommend to the President and the Congress on all policy matters affecting MSMEs;
- Co-ordinate and integrate various government and private sector activities relating to MSME development.
- Review existing policies of government agencies that would affect the growth and development of MSMEs and recommend changes to the President and Congress. Include the results of this analysis in an annual report to be submitted to the Congress.
- Formulate a six-year MSMED Plan in consultation with the government entities and private sector to be integrated into the Medium-Term Philippine Development Plan and co-ordinate meetings to ensure implementation of the MSMED Plan.
- Act as the co-ordinating and supervising body for all the agencies involved in the establishment and operation of the *Negosyo Centres*, including monitoring and assessing their progress and reporting annually to Congress.
- Publish a Compliance Guide (in simple language and in local dialects) helping MSMEs to comply with new government regulations and co-operate with industry associations to develop and distribute these guides.
- Conduct research to support women's entrepreneurship, and formulate policy directions.
- In co-ordination with the Department of Education and technical education development authorities, develop training programmes in entrepreneurship that will promote entrepreneurial culture and competences, and integrate these programmes in the curricula of educational and training institutions at all levels.

Membership of the MSMED Council consists of:

- The Secretary of Trade and Industry as Chair;
- The Secretary of Agriculture;
- The Secretary of the Interior and Local Government;
- Three representatives from the MSME sector to represent the administrative divisions of Luzon, Visayas and Mindanao with at least one representative from the micro-enterprise sector;
- One representative designated by the Philippine Commission on Women;
- One representative designated by the National Youth Commission; and
- The Chairman of the Small Business Corporation.

The Bureau of Small and Medium Enterprise Development of the DTI is designated to act as the Council Secretariat. The Bureau co-ordinates the implementation of SME policies and programmes by government departments and agencies and is responsible for preparing briefing documents for the Council, such as annual and mid-term development plans, the annual activity report, periodic reports and position papers or background materials for discussion by the Council. It is staffed by around 35 people and funded through an annual budget governed by the General Appropriations Act.

The MSMED Council is a key and active body in the Philippines. Apart from its policy advisory, planning, and co-ordination functions, it is called upon routinely by the government for important policy actions. For example, in 2015, the Council was given direct responsibility for overseeing the integration of youth entrepreneurship promotion into the national policies and programmes in support of MSME development (in compliance with the 2015 "Youth Entrepreneurship Act").

Source: Department of Trade and Industry website: https://www.dti.gov.ph/15-main-content/dummy-article/595-msmed-council/

At a more operational level, the task of co-ordinating SME policies is often assigned to the ministry responsible for SMEs or its implementing agency. In Viet Nam, this role clearly belongs to the AED. To facilitate this co-ordination role, a common practice has been to form a working group of SME focal points from each ministry and agency involved in SME policies, which would typically be the same institutions represented in the ministerial council. The purpose of the working group would be to support the work of the ministerial council, including by following up on the implementation of its decisions. In the case of Viet Nam, the AED would be the natural chair of this working group.

There are well-established policy co-ordination mechanisms between the national and local levels

In Viet Nam, the national government devolves a significant amount of policy implementation work to the provincial level. Each of the 63 Provincial People's Committees adopt an administrative structure that mirrors the national government. For example, each province has a Department of Planning and Investment (DPI), which acts as a specialised agency of the People's Committee, but also works under the direction of the national MPI.[17] The MPI co-ordinates the delivery of national SME support programmes at the provincial level through the DPIs, while the DPIs are responsible for co-ordinating SME policies at the provincial level within the People's Committees. Some of the People's Committees have developed their own SME Development Plans, which clearly reflect the needs of their region.

Provinces without SME Development Plans often lack the tools and methodologies to design and implement SME policies, lacking both the human resource capacity and know-how. For example, in some provinces, the responsibility for SME support measures falls with the business registration division of the DPI, which is mostly an administrative unit with little knowledge of SME support programmes. In such cases, the AED may assign national officers to help the DPI design SME programmes. Budgets are another issue. Only 13 of the 63 People's Committees have their own budgets for the implementation of an SME Development Plan, while the others have to request budget support from the central government. The result is an inconsistent application of SME support policies across the country.

Going forward, the AED should strengthen its policy leadership with the DPIs that have weaker capacity by offering stronger guidance. This could take the form of capacity-building sessions, including sharing the experiences of provinces which have successfully implemented SME programmes.

Stakeholder consultation is well developed

The 2015 Law on Promulgation of Legislative Documents requires that the government engage in an open and transparent consultation with relevant stakeholder groups during the stage of policy formulation.[18] Thus, when laws and regulations pertain to or have an impact on SMEs, feedback from SME representative associations – such as the Viet Nam SME Association (VINASME) and the Viet Nam Chamber of Commerce and Industry (VCCI) – must be sought and taken into consideration. Thus, on a periodic basis, the AED consults with these organisations on draft legal documents and invites SMEs to register in the AED SME Feedback Database so they can be contacted for inputs.[19]

In addition to public consultations on specific laws or regulations, there are other formal and informal policy dialogue fora between the public and private sector (e.g. Viet Nam Business Forum, the Viet Nam Private Sector Forum, etc.) similar to those that can be found in other countries.

Monitoring and evaluation of SME and entrepreneurship policy

There is adequate monitoring capacity, but a lack of formal impact evaluations

While monitoring and evaluation mechanisms are formally in place, these efforts focus mostly on monitoring budget expenditures and the take-up of certain policy measures, but much less on formal impact evaluation (OECD/ERIA, 2018[3]). Until 2018 the MPI used to publish annual White Papers on SMEs which would include a detailed overview of SME trends as well as results from the implementation of SME support programmes. Since the introduction of the SME Support Law, this publication has been discontinued and has been replaced by a report on the implementation of the SME Support Law, which is annually prepared by the AED with inputs from the different line ministries. The report, which is delivered to the Prime Minister, presents information on the state of implementation of the different policies included in the SME Support Law (see section of this chapter on policy implementation).

The Vietnamese government appears to be adequate on monitoring progress on programme implementation, but it is less advanced in the conduct of formal impact evaluations that assess how much a programme intervention has made a difference for recipient firms. Rigorous impact evaluations are complex exercises which require good data collection and data analysis skills and demand relevant budget resources. Nonetheless, they are very useful to show real impacts to policy makers, adjust programme elements that are not working well, and show value for money to taxpayers or donors. As a result, the government of Viet Nam should consider undertaking more policy evaluation studies, at least for the top 3-5 programmes that receive most government resources in terms of budget.

Conclusions and policy recommendations

SME and entrepreneurship policy has a recent history in Viet Nam, dating back to 2001 when a national law introduced a legal SME definition and established the SME Development Agency, which later became the Agency for Enterprise Development (AED). Nowadays, the SME Support Law, which has been in place since 2018, provides the main legal policy framework for SME development in Viet Nam, although other laws, such as the Enterprise Law or the Investment Law, also affect the activities of domestic SMEs. The SME Support Law concerns all SMEs, although certain additional provisions target more specifically three target groups: innovative start-ups, SMEs that participate in value chains and clusters, and household businesses that convert into formally registered enterprises. When looking at the overall SME and entrepreneurship policy framework, four main issues seem to emerge: lack of programmes specifically targeted at SME digitalisation; lack of co-ordination among different youth entrepreneurship programmes; limited success of the national policy to convert household businesses into formally registered enterprises; and lack of an SME Test to assess the impact of new legislation and regulations on SME activity.

The MPI is the main ministry responsible for SME policy in Viet Nam, with the AED acting as its operational arm. However, many other ministries are involved, which is good news because it mainstreams SME development across many technical ministries, but it also poses a challenge in terms of policy co-ordination and policy implementation. In particular, policy implementation is fragmented across a large number of legislative decisions. The preparation of an SME Development Plan, a practice which was in place until 2015, could help clarify the overall support framework for SMEs and entrepreneurship.

The foundations for inter-ministerial policy co-ordination are in place, but they are not functioning well. The SME Development and Promotion Council should be re-activated, while the AED could be strengthened to enable better co-ordination of SME policies at the operational level. Policy co-ordination between the national and local level is strong, since many policy responsibilities are devolved to provincial governments in Viet Nam. However, some provinces lack the human and financial resources to effectively implement national policies; policy leadership and capacity-building by the AED to these provinces could help improve this situation.

Finally, monitoring and progress reporting on the implementation of SME policies has been done properly in the past, but there is a lack of formal impact evaluations.

Policy recommendations on the governance of SME and entrepreneurship policy

- Develop a comprehensive set of policy measures to support the digital transformation of SMEs that could either form part of a new programme or be integrated into existing programmes (e.g. the National Programme on Development of Supporting Industries, the National Programme on Technology Innovation, etc.).
- Ensure that the needs of SMEs are addressed in the National Industry 4.0 Strategy which is being prepared by the Central Institute of Economic Management, including, for example, through the design of targeted programmes.
- Strengthen co-ordination among existing youth entrepreneurship programmes to harness synergies and build an integrated approach to the development of youth entrepreneurship.
- Adopt the SME Test as part of the current regulatory impact assessment, applying it to laws which are relevant to SMEs, such as the Enterprise Law, the Investment Law and the Science and Technology Law.
- Draft a new SME Development Plan which incorporates all relevant policy initiatives of state ministries and agencies, including those not specifically covered by the SME Support Law.
- Revamp the SME Development Promotion Council and expand its mandate to play a stronger inter-ministerial co-ordination role. In this context, provide adequate resources to the Agency for Enterprise Development to play its role of Secretariat to the Council.
- Strengthen SME policy planning capacities in provinces that have not yet developed a local SME Development Plan by leveraging on the expertise of the Agency for Enterprise Development.
- Undertake formal impact evaluation research, at least for the largest government SME programmes, to better assess the impact of these interventions on the expected beneficiaries

Notes

[1] Decree No. 90/2001/ND-CP. The employment and turnover thresholds in the legal SME definition were updated through Decree 39/2018/ND-CP concerning the Detailed Guidance on the Implementation of the SME Support Law. The name of the Agency for SME Development was eventually changed into the Agency for Enterprise Development (AED) at the Ministry of Planning and Investment (MPI).

[2] Notably, Decree 56/2009 dated 30 June 2009 and Resolution No. 22/NQ-CP dated 5 May 2010.

[3] Decision No. 1231/QD-TTg of 9 December 2012.

[4] The SME Assistance Fund was effectively created in 2013 through Decision No. 601/QD-TTg.

[5] Decision No. 844/QD-TTg of 18 May 2016, on Approval of "Assistance Policies on National Innovative Start-up Ecosystem to 2025" (https://vanbanphapluat.co/decision-844-qd-ttg-approval-assistance-policies-national-innovative-startup-ecosystem-2025).

[6] Decision 1362/QD-TTg dated 11 October 2019, proposed by the Ministry of Planning and Investment (MPI).

[7] The implementation of the SME Support Law is guided by a series of decrees, resolutions and circulars (e.g. Decree No. 39/2018/ND-CP on guidelines for the SME Support Law; Ministry of Justice's Decree No. 55/2019/ND-CP on legal support for SMEs; Ministry of Planning and Investment's Circular No. 06/2019/TT/BKHDT on guidelines for organisation and operation of a network of consultants).

[8] Key legal references are, in this case, the Scheme for Supporting Student Start-ups to 2025 by Prime Minister Decision No. 1665/QD-TTG, dated 30 October 2017, and the National Youth Start-up Programme 2016-2021, launched in October 2016.

[9] However, the SME Support Law called for amendments to the 2014 Investment Law: 1) to include in the list of "preferential investment industries and trades," SMEs in distribution chains, and technical establishments, incubators, and co-working spaces for SMEs and start-ups (Clause 1 of Article 16 of the Investment Law), and 2) to apply detailed regulations on forms of investment support to high-tech enterprises, science and technology (S&T) enterprises, S&T organisations, enterprises investing in agriculture and rural areas, and enterprises investing in education (Clause 1 of Article 19 of the Investment Law).

[10] *Viet Nam News*, "Logistic firms urged to get technological", 9 April 2018, https://vietnamnews.vn/economy/425961/logistic-firms-urged-to-get-technological.html/

[11] Directive No. 16/CT-TTg dated 4 May 2017.

[12] The 2019 Draft Law Amending the Enterprise Law includes household businesses as a legal type of business entity. The draft law adds a new chapter with five articles that remove all restrictions on household enterprises, refrains from using administrative measures to force them to become registered enterprises under the Enterprise Law, and outlines the responsibilities of household business owners to carry out the business activities and fulfil tax and other financial obligations (see: "Household business regulations brought into law", *Viet Nam Law & Legal Forum Magazine*, 18 October 2019, http://vietnamlawmagazine.vn/household-business-regulations-brought-into-law-16879.html).

[13] The duties of the AED, as initially stipulated in Decision No. 504/QD-BKH dated 24 April 2008 of the MPI, included: formulation of legislative measures for the support of SMEs; supporting the MPI Minister on SME promotion policy; legislation on business registration; and acting as the permanent secretariat of the SME Development Promotion Council. However, its roles and function have been revised a number of times through different ministerial decisions.

[14] Based on information from the AED's interim implementation report that the OECD received in March 2020.

[15] The configuration of the Council is stipulated in Decree No.90/2001/CP-ND and its amendments, i.e. Decree No.56/2009/ND-CP of 30 June 2009; Prime Minister Decision No.1918/QD-TTg dated 10 October 2010 on function and duties of the SME Development Promotion Council; and Decision No. 975/QD-BKHDT dated 7 July 2011 of the MPI on operating rules of the Council for encouraging the development of SMEs.

[16] The composition of the SME Development Council of Viet Nam is as follows: Minister of Planning and Investment (Chair), AED (standing secretary), Minister of Industry and Trade, Ministry of Justice, Ministry of Finance, Ministry of Education and Training, Minister of Agriculture and Rural Development, Minister of Justice, Minister of Science and Technology, Minster of Education and Training, Minister of Natural Resources and Environment, Minister of Labour, Invalids and Social Affairs, Minister of Construction, Minister of Transport, State Bank of Viet Nam, People's Committees from the five main provinces, Viet Nam Chamber of Commerce and Industry, Viet Nam Association of Small and Medium Enterprises, Viet Nam Cooperative Union, Viet Nam Union of Science and Technology Associations, Viet Nam Young Entrepreneurs Association, selected experts at the request of relevant ministries.

[17] The functions of the provincial DPIs are to advise and assist the provincial People's Committee on: socio-economic development plans; implementation of socio-economic management mechanisms and policies in the province; domestic and foreign investment in localities; management of official development assistance and non-governmental aid; procurement; business registration within the locality; general and unified management of business issues, the collective economy, and the private economy.

[18] According to the 2015 Law on Promulgation of Legislative Documents, opinions may be sought from stakeholders by direct questioning, circulating the draft for comment, holding meetings, and using the mass media. The report on policy impact assessment introduced in a draft law must be posted on the portal of the National Assembly, the government, or the agency that proposes the draft. In addition to collecting opinions from those directly affected by the proposed policies, it is compulsory to collect opinions from the Ministry of Finance, the Ministry of Home Affairs, the Ministry of Foreign Affairs and the Ministry of Justice.

[19] The Law on the Promulgation of Legislative Documents makes the use of ICT mandatory in public consultations.

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5 SME and entrepreneurship support programmes in Viet Nam

This chapter describes and assesses national programmes supporting SMEs and entrepreneurship in Viet Nam in the areas of access to finance, innovation, internationalisation, public procurement, workforce skills, entrepreneurship education and women's entrepreneurship. SME financing programmes, notably the SME Development Fund and the Credit Guarantee Fund, feature low take-up, calling for operational adjustments in their design and implementation. Innovation is a common policy target, but it has mostly focused on R&D support and technology promotion, while building innovation capabilities at the firm level has been overlooked. In the area of export policy, Viet Nam's recent improvements in trade facilitation should be complemented with programmes improving the export-readiness of SMEs and their capacity to engage in e-commerce. Entrepreneurship education is starting to move its first steps in higher education, while there is still little going on at the primary and secondary level of education. Finally, support for women's entrepreneurship has recently been strengthened, but it could be better mainstreamed by ensuring that women are adequately represented in all government SME and entrepreneurship programmes.

Debt finance programmes

Based on data from the World Bank Enterprise Survey, about one-quarter of Vietnamese SMEs consider access to finance the main obstacle to running their business, while about half of them report having a loan or a credit line from a financial institution (see also chapter 3). Other national sources report that only about 30% of SMEs have access to bank credit (Binh, 2019[1]) and that up to 38% of SMEs are credit-rationed mostly because of lack of adequate collaterals (CIEM et al., 2016[2]). The government has taken two main steps to improve the access of domestic SMEs to bank credit. First, credit institutions are encouraged to lend to SMEs through tailored loan products at preferential rates. Second, the government has set up the SME Development Fund (SMEDF) and the Credit Guarantee Fund (CGF). These two instruments are presented and assessed in this section.

The SME Development Fund (SMEDF)

The SMEDF is an important policy initiative, but has some drawbacks

The SMEDF was established under Prime Minister Decision No. 601/QD-TTg dated 17 April 2013, with an initial capitalisation of VND 2 trillion from the state budget, and became operational in April 2016. The Ministry of Planning and Investment (MPI) is responsible for its implementation.

Funding to SMEs from the SMEDF is largely channelled through partnering banks. The SMEDF has authorised the Viet Nam Development Bank (VDB), a public development bank, and four partner commercial banks to deliver the loans,[1] with the Fund providing 80% of the loan amount (not to exceed VND 30 billion per project), and the company required to contribute at least 20% of the project cost in equity. The SMEDF loan can have a maturity of up to 7-years at interest rates capped below the market rates (e.g. 5% for short-term loans and 7% for medium and long-term loans, rather than the market rates of 8% to 10%). In this respect, there is a danger that the capped interest rates might discourage partnering commercial banks from exercising the SMEDF loan due to the higher-than-average cost of processing small business loans and, at the same time, lower-than-average margins on the SMEDF-backed loans. By the same token, although cost-sharing is a common requirement of subsidised credit programmes, the 20% matching-fund requirement could hinder the participation of cash-constrained small enterprises.

A further limitation of the SMEDF is that loans can only be applied to asset-based projects – that is to say, the Fund cannot be used to finance working capital – and that the lending bank is allowed to request hard collateral for up to 100% of the loan amount. While this is lower than the standard collateral requirement of commercial banks, which can be as high as 150%, many small businesses will still find it difficult to comply, unless the SMEDF loan is further backed by a government guarantee.

The selection criteria of the SMEDF include innovativeness (including new business models), employment creation, environmental savings, and evidence of good administrative/management practices. Partnering banks make their loan appraisal based on guidelines issued by the SMEDF, but they still must secure approval from the Fund for each loan, which makes the overall selection process quite cumbersome.

The SMEDF loan offers a simplified application process that can be submitted online at one of the partnering banks. Furthermore, the SMEDF operates a call centre to help SMEs complete the loan application form and, through an informal network of service providers, advise SMEs on how to develop a loan proposal. In 2017-2018, 1 600 SMEs availed of this service, although only very few of them applied for funding from the SMEDF.

Since its creation the SMEDF has not experienced high demand. By 2019, the Fund had supported only 14 SME loans for a total of VND 106.4 billion.[2] Major issues have been low awareness of the Fund among SMEs and, as noted earlier, cumbersome approval procedures and strict eligibility requirements.

The SME Support Law might further restrict the client base of the SMEDF

Demand for the SMEDF is likely to be further affected by the implementation of the SME Support Law (Government Decree 39/2019/ND-CP of 10 May 2019), which restricts the SMEDF support to “innovative start-ups” and “SMEs participating in business clusters and value chains”. Prior to the SME Support Law, the SMEDF could finance loans from a broader range of SMEs, including co-operatives and household businesses[3], which are no longer in line with the mandated priorities of the Fund. The implementing decree of the SME Support Law also authorises the SMEDF to engage in direct lending. In this case, the maximum loan size should not exceed 80% of the total investment capital of the financed project, up to a ceiling of VND 1 billion, while the interest rate should be no higher than 80% of the lowest interest rate available from commercial banks.

The SMEDF needs to expand its activity and collect better data

Going forward, the SMEDF should clearly strive to increase its number of users, since the operating costs of managing a Fund that has only served 14 companies in four years is certainly higher than its economic and social benefits. In due course, it will also be important to produce data on the performance of the Fund, including the number of applicant SMEs (by sector of activity), the average loan size, the percentage of applications rejected (including, if possible, the reasons of rejection) and the rate and volume of loan defaults.

The Credit Guarantee Fund

The use of credit guarantee funds has been restrained by both demand and supply-side factors

Credit guarantees are one of the most common government policies to support SMEs’ access to financing (OECD, 2013[3]). In Viet Nam, Decree No. 193/2001/QD-TTg provided for the creation of a network of credit guarantee funds to provide SMEs with extra security in order to meet the collateral requirements for bank financing. The Credit Guarantee Funds (CGFs) are operated through two channels: 1) the VDB with funding from the state budget; and 2) Local Guarantee Funds (LGFs) that are operated by local and city governments with funding from local budgets. Credit guarantees have been in place at the local level since 2001 and at the central level since 2009. Since 2009 the VDB is entrusted with overseeing both the central fund and the local funds. The total charter capital of Viet Nam’s credit guarantee funds is estimated at VND 1.5 trillion.

Viet Nam’s credit guarantee funds are not allowed to leverage the volume of credit guarantees beyond three times their total charter capital (up to VND 4.5 trillion in loan volume).4 However, evidence from other countries points to a leverage rate more often in the range of 5-7 times its capitalisation (European Commission, 2006), suggesting that there could be room for rising the leverage ratio to expand SME credit in Viet Nam.

Usage of the CGF has also been low; from 2001 to mid-2017, only 2 000 SME loans were backed by guarantees. In 2017, the total value of guaranteed loans was equivalent to 0.12% of total outstanding SME loans and to 0.03% of GDP, the last figure being much lower than in Thailand (over 1% of GDP) and Malaysia (1.5% of GDP) (NCIF, 2017, as cited in Dang and Chuc (2019[4])). The scale of the LGFs is also very small, with only VND 250 billion in active status in mid-2019. One of the reasons behind the low use of credit guarantees in Viet Nam concerns the strict conditions for SMEs to receive a guarantee, especially in terms of mortgage assets. Another reason lies in the relatively high rate of non-performing loans: by the end of 2017, nearly 10% of the total amount of loans guaranteed by the CGFs was non-performing (Dang and Chuc, 2019, p. 9[4]).

Commercial banks in Viet Nam are also often reluctant to accept the government credit guarantees, particularly at the local level, due to funding constraints of the local guarantee entities (*i.e.* banks are not confident the guarantees will be available in case of loan defaults) (OECD/ERIA, 2018[5]). Under Decision 58/2013/QD-TTG, all local guarantee funds were required to have at least VND 30 billion in charter capital, but since most are capitalised from local government budgets, few actually meet this requirement (OECD/ERIA, 2018[5]).[5]

Finally, essential to an effective guarantee scheme, is the presence of well-trained staff (European Commission, 2006[6]), which is also a weakness in Viet Nam's local funds (Dang and Chuc, 2019[4]). It can take up to three months for a guarantee approval, whereas well-functioning credit guarantee schemes can process requests within one or two weeks.

Some operational aspects of Viet Nam's CGF could be better aligned with the international experience

Some operational aspects of the Vietnamese CGF could also be tweaked. The fee for a CGF-backed loan guarantee is equivalent to 0.5% per year of the total loan plus interests, to be paid by the borrower, which is low compared to other similar international programmes. Furthermore, in Viet Nam, the guarantee covers up to 100% of the loan, which means that the CGF takes on the entire risk for default, whereas in most guarantee funds the coverage rate ranges between 50% and 80%, leaving the partnering bank to share part of the risk. A comparison with credit guarantee schemes in other countries indicates that Viet Nam is an outlier in these two important aspects (Table 5.1). Viet Nam would therefore be advised to reduce the coverage rate from 100% to 80% and to increase the guarantee fee to 1% or 2%, also taking into consideration other key features of well-designed credit guarantee schemes (see Box 5.1).

A cost-benefit analysis of the CGF could help the government better assess the real impact of this programme

The good performance of a credit guarantee programme clearly depends on the rate of non-performing loans, but also on other socioeconomic considerations such as additionality and externalities, including jobs created by the portfolio of assisted SMEs and contributions to tax revenues, which are essential considerations in a cost-benefit analysis of the entire scheme (European Commission, 2006[6]). For example, the review of the Canadian Small Business Financing Programme (CSBFP) calculated the cost of programme administration and loan defaults over a nine-year period at CAD 986.7 million, compared to benefits of CAD 3.85 billion (Box 5.2). Performing a cost-benefit analysis of Viet Nam's CGF might help allay the government's aversion to losses from defaulting loans. The case of Ireland's credit guarantee programme (Box 5.3) is also relevant for Viet Nam because it shows how an in-depth programme review can assist in detecting major bottlenecks in programme design and implementation and suggesting appropriate solutions.

Table 5.1. An international comparison of loan guarantee programmes

Country	Canada	Denmark	Netherlands	United States	Ireland	Viet Nam
Programme	Canada Small Business Financing Programme (CSBFP)	Vaekstkaution (Growth Guarantee Programme)	SME Credit Guarantee (BMKB)	7(a) Loan Guaranty Programme	SME Credit Guarantee Scheme	SME Credit Guarantee Scheme
Delivery agent	Innovation, Science and Economic Development Canada	Vækstfonden (Danish Government Growth Fund)	Netherlands Enterprise Agency	Small Business Administration (SBA)	Strategic Banking Corporation of Ireland (SBIC)	Ministry of Planning and Investment
Target Firms	(Non-farm) small businesses or start-ups with gross annual revenue of not more than CAD 10 million. Guarantee only applies to fixed asset loans, working capital lending not eligible for the guarantee.	SMEs with up to 250 employees in all sectors and with growth plans, plans to invest in new markets, pursue export orders, etc.	Firms up to 250 employees, turnover up to EUR 50 million. Special emphasis on innovative SMEs, start-ups, and established SMEs operating abroad.	Small businesses meeting the SBA definition.	SMEs with less than 250 employees, turnover of less than EUR 50 million, with inadequate collateral to borrow from a bank under normal lending conditions, or a business in a market, sector or technology perceived as higher risk.	Limited to innovative SMEs and start-ups; and SMEs in clusters and value chains; having no more than 200 employees registered with the state social insurance scheme and within thresholds set for total capital and/or total revenue of the preceding year.
Guarantee coverage	Up to 85%. Lenders are required to take security in the assets financed. Lender may also take personal guarantee.	75% of the loan loss after liquidation of any collateral and any other guarantees; 25% of the loan loss to be absorbed by the lending institution.	Up to 90%.	Up to 85% for loans up to USD 150 000; up to 75% for loans over USD 150 000.	Up to 80% on term loans, demand loans, performance bonds.	Up to 100% (including working capital and medium- to long-term capital); SME must have at least 20% of the required capital they wish to guarantee.
Delivery mechanism	Loans delivered through banking system. The small business applies for the loan from the bank, which does the due diligence. If government guarantee is required, the bank sends request to the CSBFP.	Loans delivered through financial institutions, which perform the credit assessment.	Loans delivered through participating banks. SME applies to the bank. Bank appraises the loan request, and applies to the BMKB for the guarantee.	Guarantee loans delivered through participating banks. SME applies to bank for a loan. Bank assesses loan application; sends request to the SBA; SBA checks the small business eligibility, sends guarantee agreement to the bank.	Loan processed through Bank of Ireland, Ulster Bank, or Allied Irish Banks; lender responsible for credit decision, makes request to the CGS for the guarantee.	Lending decision made by the participating bank. CGF also reviews the request for eligibility and coverage.
Maximum loan size	Up to CAD 1 million (with not more than CAD 350 000 for leasehold improvements and/or purchasing or improving new or used equipment).	DKK 2 million (EUR 268 000) Maximum for start-up loan is DKK 1 million (EUR 134 000).	EUR 1.5 million (Minimum loan – EUR 35 000) Maximum for start-ups is EUR 200 000 (no more than 3 years in business).	USD 5 million. Amount of guaranteed loans during any fiscal year not to exceed 115% of the programme authorisation limits.	Minimum loan size EUR 10 000; no more than EUR 1 million to any one borrower.	VND 2 billion.
Cost of loan	One-time registration fee of 2% of total amount	One-time premium of 1.5% of the funding	One-off commission of 3.9% to 5.85% of	Premium of 2% of guaranteed portion of loans up to USD	Maximum of 2% annual premium to the	0.5% per annum of the total guaranteed loan

	of the loan (borrower to the lender) paid to ISED to offset programme costs; can be built into the total loan cost. Plus, a 1.25% annual administration fee included in the interest rate to the borrower.	amount paid by the financial institution on behalf of the borrower. Plus, annual fee of 2.0% of the outstanding loan amount, paid by the borrower.	the credit amount; 5.5% to 8.35% for innovative SMEs (due to higher risk – both paid to the Ministry of Economic Affairs) (Commission is passed on by lenders to borrowers).	150 000, 3.5% of first USD 1 million of guaranteed loan; 3.5% of guaranteed loan amount over USD 1 million. Plus, an annual fee of 0.55% on the balance of the guaranteed sum.	Government based on outstanding credit amount.	and interest.
Interest rate	Maximum chargeable for a variable rate - lender's prime lending rate plus 3%. Maximum chargeable fixed rate - single-family residential mortgage rate plus 3%.	Fixed by lender	Fixed by Government (usually equal to a low risk rate).	Fixed by lender but set at maximum of 7.75% to 10.25% (2019 rates), depending on the size and maturity of the loan (3.0% to 5.5% above prime base rate).	Set by lender based on risk.	Fixed by lender.
Length of loan	Up to 7 years for leasehold improvements; up to 10 years for equipment loan; up to 15 years for real property loan.	Up to 10 years	Maximum 6 years (but 12 years for property lending).	Maximum 7 years for working capital loan; 10 years for equipment loan; 25 years for real estate loan.	Maximum 7 years	Data not available.
Default rate	From 2008-2017, the default rate was 7.9% of outstanding loans; in 2016-2017, the default rate (claims to outstanding loan portfolio) was only 2.14%.	If portfolio loss is up to 26.7%, the Growth Guarantee covers 75% of the loss; if the portfolio loss is more than 26.7%, the guaranteed portion is decreased.	Not available	From 2006-2015, 1 in 6 loans defaulted (17.4% of loans). SBA requires lender to liquidate all business assets before asking the SBA to honour its guarantee.	13% projected (80% of the loss to be covered by the State equates to loss risk of 10.4% (default rate on the portfolio of guaranteed funds is 13%; beyond this loss rate, the State will not honour the guarantee of the bank).	Data not available.

Source: Information from programme websites.

Box 5.1. Key features of well-designed credit guarantee schemes

Eligibility criteria: Guarantee schemes should target SMEs through reasonable ceilings on turnover, number of employees, and/or size of the loan. However, restrictions on sectors or types of loans should be avoided.

Approval rules and procedures: Approval procedures should be streamlined and carried out within a period of two weeks.

Collateral and equity rules: Credit guarantee schemes should be allowed to require collateral, although subject to reasonable limits, and should be allowed to require minimum equity for riskier exposures.

Coverage ratios: Coverage ratios should ensure sufficient protection against default risk while maintaining strong incentives for effective loan origination and monitoring. Coverage ratios ranging from 50% to 80% are common, with ratios typically increasing with the maturity of the loans (lower for working capital loans, higher for investment loans) and decreasing with the age of company (higher for start-ups, lower for more established firms).

Fees: Fees should be risk-based and contribute to the financial sustainability of the scheme.

Payment rules and procedures: Payment rules on defaulted loans should take into account the effectiveness of the collateral and insolvency regimes. Schemes in developed countries can base payments on realised losses, but schemes in most emerging countries need to base payments on default events while ensuring incentives for effective debt collection.

Risk management: Strong risk management capacity is key to ensure that guarantees reach targeted borrowers and to ensure the financial sustainability of the scheme.

Evaluation mechanism: Comprehensive evaluation mechanisms are best practices to measure a credit guarantee scheme's achievements in terms of outreach, additionality, and sustainability.

Supervision: Many credit guarantee schemes are supervised by central banks in order to ensure the soundness of their operations.

Risk weighting for banks' prudential requirements: A well-designed and financially robust guarantee scheme should allow bank regulators to assign a lower risk weight to exposures that are covered by the guarantee.

Source: IFC (2011, p. 58[7]), *SME Finance Policy Guide*, citing examples from Green (2003[8]), "Credit Guarantee Schemes for Small Enterprises: An Effective Instrument to Promote Private Sector-Led Growth?" Working Paper No. 10, United Nations Industrial Development Organization, https://www.unido.org/sites/default/files/2007-11/18223_PSDseries10_0.pdf;
Youssef, Arvai, and Rocha (2011[9]), "A Review of Credit Guarantee Schemes in the Middle East and North Africa," World Bank, https://www.findevgateway.org/sites/default/files/mfg-en-paper-a-review-of-credit-guarantee-schemes-in-the-middle-east-and-north-africa-region-mar-2011.pdf.

Box 5.2. Measuring the cost-benefit of the Canada Small Business Financing Programme

The Canada Small Business Financing Programme (CSBFP) is a loan loss sharing programme designed to support access to financing for SMEs in partnership with the banking sector. Canada's federal department of Innovation, Science and Economic Development (ISED), which manages the programme, conducts a comprehensive review every five years, including an evaluation of whether the programme is achieving its objectives and producing net benefits to the country. The most recent evaluation covers the fiscal years 2008/09 to 2016/17. The results demonstrate that the programme produced net social benefits of nearly CAD 4 billion over the nine-year evaluation period, with a net positive benefit of at least CAD 350 million annually.

The total costs of delivering the CSBFP include:

- Salaries and benefits of the ISED staff involved in the administration and management of the programme – CAD 26 million (average of CAD 2.9 million per year);
- Direct operating expenditures, including information management and technology, travel costs, supplies and contracting – CAD 4.4 million;
- Capital expenditures, including the purchase of information technology systems and other assets – CAD 0.7 million;
- Cost to ISED of loan defaults (payment of claims) – 11 378 claims on loan defaults totalling CAD 647.1 million (averaging CAD 71.9 million per year);
- Cost to lenders of loan defaults (loan losses) – CAD 107 million (averaging CAD 12 million per year).

The overall benefits of the programme attributable to incremental CSBFP lending (*i.e.* loans that would not have been made without the CSBFP) take into consideration:

- Macroeconomic impact of expenditures by borrowers using CSBFP loans (direct and indirect) – every dollar lent resulted in between 48 and 58 cents of additional value-added to the economy; and CAD 59.4 million to CAD 70.2 million in federal taxes on additional production generated through investments by CSBFP borrowers;
- Profits earned by lenders from interests on CSBFP loans – CAD 720 million (average of CAD 80 million per year);
- Employment creation by borrowers in additional salaries and wages paid – additional 163 000 full-time employees;
- Federal tax paid by borrowers on salaries and wages of employees as result of CSBFP loans – CAD 82 million (average of CAD 9 million per year);
- Registration and administration fees paid by borrowers to ISED – CAD 467 million (average of CAD 52 million per year).

The total present value of programme costs was, therefore, estimated at CAD 986.7 million, while the total present value of programme benefits was estimated at CAD 3.85 billion, thus generating a total benefit-cost ratio of nearly 5:1.

Source: ISED (Innovation, Science and Economic Development) (2019[10]), "Canada Small Business Financing Program: Cost-Benefit Analysis, May 2019", Ottawa, https://www.ic.gc.ca/eic/site/061.nsf/vwapj/Cost-Benefit_Analysis_2019_eng_Final-2.pdf/$file/Cost-Benefit_Analysis_2019_eng_Final-2.pdf/

Box 5.3. Evolution of the SME Guarantee Scheme, Republic of Ireland

Description of the approach

Ireland's initial Credit Guarantee Scheme was established under the Credit Guarantee Act of 2012. SMEs eligible for the guarantee were either those lacking sufficient collateral for bank credit, or those in a growth/expansionary phase but perceived as higher risk due to their sectors, markets or business model.

The 2012 scheme guaranteed up to 75% of the unsecured loan amount (for loans of EUR 10 000 to EUR 1 million), but with the loan loss coverage to the banks capped at 10% of the annual guaranteed lending portfolio. The guaranteed portion of loans had a three-year term and carried an annual premium of 2% on the outstanding balance of the guaranteed loan to be paid by borrowers to the Department of Jobs, Enterprise and Innovation (DJEI). The premium was set to offset the administrative costs of the scheme and default losses incurred by the Government. SME borrowers submitted their loan application directly to a participating bank, which was solely responsible for making the credit decision and applying the credit guarantee only in cases where the borrower was not able to provide the necessary collateral or where it met the conditions of "higher risk".

From October 2012 to June 2013, the scheme had approved only 47 loans amounting to EUR 5.9 million. In light of this much lower than projected performance, the government established a Steering Group to oversee a review process of the scheme. The Steering Group consisted of officials from the DJEI, the Department of Finance, the Central Bank, the Credit Review Office, the Department of Public Expenditure and Reform, and Enterprise Ireland. As a first step, the Steering Groups commissioned an independent evaluation of the scheme that included extensive consultations with banks, SME associations, chambers, business/industry associations, and government SME support agencies. The review report made 16 recommendations for changes to the scheme to increase take-up and support to participating lenders (First Choice Financial Services/AJS Financial Advice, 2013[11]); the DJEI subsequently drafted amendments to the Credit Guarantee Bill that incorporated many of these recommendations. Following a further Regulatory Impact Analysis (RIA) of the Bill (DJEI, 2014[12]), a revised SME Guarantee Scheme was approved in 2017 and launched in July 2018.

Success factors

The establishment of a Steering Group to review the performance of the scheme, including independent reviews and consultations with lending institutions and SME-related bodies, was a key factor in enabling the government to respond more effectively to its objective of making credit more available to SMEs.

From the launch of the new scheme in July 2018 to the end of 2019, 200 loans totalling EUR 37.639 million were approved, bringing the total number of guaranteed loans to 586 (value of EUR 93.214 million) since the inception of the scheme in 2012 (SBCI, 2020[13]). By the end of 2019, total claims on the scheme (*i.e.* defaults) amounted to EUR 865 491. Just under EUR 2.4 million had been collected in premiums to cover the scheme's administration costs and loan losses.

Obstacles and responses

The 2013 review process identified a number of problems limiting the performance of the initial credit guarantee scheme. One of the primary issues for lending institutions was inadequate risk sharing: *i.e.* guarantee coverage limited to 75% of the loan amount and the Government's loan loss cap of 10% on the annual portfolio of guaranteed loans held by the bank. In response, the new scheme was made more attractive to the banks by increasing the guarantee coverage to 80% of the unsecured portion of the loan and raising the cap on the government's loan loss to 13% of the aggregate value of the guaranteed loan portfolio. Furthermore, the term of three years for the guaranteed loan was deemed as being too short. In response, the term was extended to seven years.

Low awareness of the scheme among SMEs was also an initial reason for the low take-up. This was addressed through a schedule of promotional events and through the enhanced engagement of SME associations and business support organisations in promoting the scheme among members and clients. SMEs were also reluctant to make use of the scheme because of the requirement to supply a bank declaration stating that a loan request had been denied under normal lending conditions, fearing that this would affect their credit rating. In response, this requirement was removed from the scheme's eligibility criteria. SMEs and their associations also complained that the scheme could only be applied to loans from banks and advocated for broader inclusion of non-bank lending institutions in the scheme. Consequently, since 2018 the scheme has allowed leasing companies and factoring firms to use the government guarantee.

Relevance to Viet Nam

The Ireland example illustrates the merits of undertaking independent reviews to understand why some programmes may underperform. Undertaking such a review of the Credit Guarantee Fund in Viet Nam could lead to improving some of its operational aspects and ultimately strengthening its performance.

Sources for further information

Department of Business, Enterprise and Innovation, Dublin (http://www.dbei.gov.ie).

The Strategic Banking Corporation of Ireland (SBCI) acting as operator of the SME Credit Guarantee Scheme (https://sbci.gov.ie/schemes/sme-credit-guarantee-scheme-cgs).

First Choice Financial Services/AJS Financial Advice (2013[11]), "Review of the Temporary Partial Credit Guarantee Scheme 2012: Recommendations submitted to the Steering Committee appointed by the Department of Jobs, Enterprise and Innovation", Dublin.

DJEI (2014[12]), "Regulatory Impact Analysis, Credit Guarantee (Amendment) Bill 2014", Department of Jobs, Enterprise and Innovation, Dublin.

Republic of Ireland (2017[14]), "Credit Guarantee Scheme 2017", Statutory Instruments, S.I. No. 70 of 2017, Dublin.

SBCI (2020[13]), "4th Quarter Report of 2019 to the Minister for Business, Enterprise and Innovation detailing the analysis and performance of the SME Credit Guarantee Scheme at 31 December 2019", Dublin, https://dbei.gov.ie/en/Publications/Publication-files/Q4-2019-Report-SME-Credit-Guarantee-Scheme.pdf/

Other policy developments in SME financing

Fintech is slowly being introduced in Viet Nam

Other developments to improve access to finance by Vietnamese SMEs are driven by international organisations lending to commercial banks for relending to SMEs. Notable, for example, is the Asian Development Bank's (ADB) long-term loan of USD 300 million to the Commercial Bank for Investment and Development of Viet Nam.[6] Among other things, this loan should contribute to the development of a new digital product to reach underserved SMEs in rural areas. The development of Fintech could play an important role in easing current constraints in SME financing. The recent launch of Finaxar in Viet Nam, a subsidiary of Singapore Finaxar, goes in this direction, as it is expected to enable quick online access to short-term working capital upon payment of a small fee.[7]

Equity finance initiatives

Equity finance for SMEs is at an early stage of development but is growing rapidly

Private equity finance has lagged behind in Viet Nam due to the government's preference for traditional credit policies and the limited knowledge of equity finance among international donors (Klingler-Vidra, 2014[15]). Viet Nam's venture capital market started in 2004 with the establishment of IDG Ventures Viet Nam, which since then has invested in about 40 companies from different industries. Other venture capital funds have followed suit, although many others still prefer operating in the country from Singapore due to the weak legal and regulatory environment for private equity and venture capital investments in Viet Nam (Dao, 2016[16]). For example, Viet Nam's venture capital funds investing abroad need a special certificate, whose application and approval should take 14 days, but in practice can take up to 3-4 months. In addition, 6-12 months can lapse between the time of having an investment agreement and securing the adequate papers to process the capital transfer (Dao, 2016[16]).

Additional policy measures, such as tax incentives, would help further develop equity finance for SMEs

In addition to refining the legal and regulatory framework for venture capital investments, additional policy measures are often required to incentivise private investors to make investments in high-risk start-ups and early-stage ventures. In many OECD countries, for example, governments have successfully introduced both front-end tax incentives (*i.e.* tax deductions on investments in seed and early-stage ventures) and back-end tax reliefs (*i.e.* favourable tax treatment of capital gains and losses on those investments) (OECD, 2013[17]). The government could consider establishing such tax incentive schemes (see Box 5.4 for an example from the United Kingdom), as they would align with the government's overall strategy to become a start-up-nation with a stronger base in technology and innovation.

Box 5.4. Tax incentives schemes for equity investments in SMEs in the United Kingdom

The UK government delivers three programmes providing tax incentives to encourage private investment in small and growing higher risk businesses. The Enterprise Investment Scheme (EIS), first launched in 1994, offers tax incentives to investors who purchase new shares in small higher risk trading companies. Private investors can invest up to GBP 1 million in qualifying shares and receive 30% of the cost of the investment as a credit against their income tax liability. In addition, the capital gains tax liability on disposal of an existing asset can be deferred if capital gains are reinvested in EIS shares within a certain period of time. If EIS shares are disposed of at a gain, profits are exempt from capital gains tax. If the investor incurs a loss, this may be set against income tax in some circumstances.

In 2012, the UK government introduced the Seed Enterprise Investment Scheme (SEIS), a second scheme offering a range of tax reliefs to investors in small, early-stage companies. Providing the shares are held for at least three years, the investor benefits from a tax credit of 50% of the share cost, up to GBP 100 000. The SEIS provides for a 50% exemption on capital gains that are reinvested in the SEIS. If SEIS shares are disposed of at a gain, the gain is exempt from capital gains tax. If the investor incurs a loss, this may be set against income tax in some circumstances.

The third programme, the Venture Capital Trust Scheme (VCT), launched in 1995, offers a relief against income tax at 30% of the investment cost, up to GBP 200 000, to incentivise individuals to make indirect investments, via intermediaries, into small and growing higher risk businesses. Investors buy shares in a VCT, which must fulfil a number of qualifying criteria including being listed on a primary stock exchange. The VCT then invests in qualifying companies, primarily through equity or quasi-equity instruments. The investor must hold their shares in the VCT for 5 years to qualify for the tax reliefs. Dividend payments and capital gains on the shares in the VCT are also exempt from the respective taxes.

Source: OECD (2015, p. 115[1]), New approaches to SME and entrepreneurship financing – broadening the range of instruments, Paris.

A junior equity market has experienced rapid growth

A number of countries encourage the development of specialised trading platforms to satisfy the demand of SMEs for equity finance (OECD, 2015[18]). While Viet Nam's market capitalisation has grown significantly in recent years, it does not have yet such a platform. However, in 2009, the Ha Noi Stock Exchange – the second largest after the one in Ho-Chi-Minh City (HOSE) – established the Unlisted Public Company Market (UPCoM) which offers easier access to capital markets through lower listing and information disclosure requirements than those demanded in the two main stock exchanges. At the same time, inclusion on UPCoM facilitates visibility and access to equity capital for enterprises of different sizes and requires firms to improve transparency and corporate governance.

In 2017, the HNX started to categorise UPCoM-listed firms by size of capital in order to improve monitoring and supervision of the market. "UPCoM Large" refers to enterprises with registered/chartered capital of more than VND 1 trillion (about USD 43 million); "UPCoM Medium" are enterprises with registered/chartered capital of VND 300 billion to VND 1 trillion (USD 13 million to USD 43 million); and "UPCoM Small" are enterprises with registered/chartered capital of VND 10 billion to VND 300 billion (USD 430 000 to USD 13 million).[8]

The market capitalisation and number of firms on UPCoM has increased significantly in recent years. By the end of 2018, about 790 firms traded shares, thus exceeding the number of listed companies on HOSE and HNX.[9] By the end of August 2019, there were 850 UPCoM-listed firms, the total volume of registered transactions exceeded 39.6 billion shares, and the market capitalisation had climbed to over VND 1 quadrillion.[10]

Overall, the creation of a junior equity market is a sensible policy which could ease the transition of fast-growing companies from the venture capital/private equity system to the public equity market. In doing so, it also offers an important exit strategy for early-stage venture capital investors. At the same time, the total number of companies in UPCoM appears to be very high given the stage of development of Viet Nam's financial markets. This is partly the result of an entry threshold which is low by international standards and might inevitably reduce the level of scrutiny on companies accepted on this platform.[11]

This has led to concerns that UPCoM's loose regulations, combined with a significant growth in listed firms and market capitalisation, could result in frauds due to the reduced ability of market regulators to oversee the quality of traded companies. As a step to increase transparency, improve market surveillance and better protect investors, HNX issued the new UPCoM Market Organisation and Management Regulation in 2017 (OECD, 2019[19]). This regulation increased the information disclosure and corporate governance requirements for companies trading on UPCoM to make them closer to rules governing the HNX mainstream stock exchange.

Innovation support programmes

Viet Nam has issued a number of laws and policy programmes to support science, technology and innovation at the firm level, including the Science and Technology Law, the Technology Transfer Law and the Law on Intellectual Property Rights (see chapter 3 for more details). Of the 28 support programmes identified by the World Bank as either directly or indirectly targeting SMEs in Viet Nam,[12] 11 were categorised as focusing on innovation (World Bank, 2017[22]). A number of government agencies have been established to encourage business innovation, such as the National Foundation for Science and Technology Development (NAFOSTED), the State Agency for Technology Innovation (SATI), and the National Agency for Technology Entrepreneurship and Commercialisation (NATEC).

The National Technology Innovation Programme to 2020 is the national flagship innovation programme

The National Technology Innovation Programme (NTIP) (Decision No. 667/QD-TTg dated 10 May 2011) is a major innovation programme administered by the Ministry of Science and Technology (MOST) to boost innovation through the application of science and technology. It aims to assist firms in research and development (R&D), product testing, training and hiring of experts in product design, as well as in the production of new products. From an ecosystem perspective, it also supports the establishment of technology incubators. Over the 2010-2015 period, the programme supported in total about 40 000 businesses and 40 business incubators (OECD/ERIA, 2018[5]).

As part of the NTIP, the government launched the National Technology Innovation Fund (NATIF) with the aim of promoting access to finance for technology innovation. The NATIF supports activities to introduce innovative technology applications; commercialise the results of scientific research and technological development; and bring to the market new products and services that have high technological content. NATIF's charter capital is about USD 50 million; in 2018, it provided funding for 79 projects and organised intellectual property (IP) training for nearly 2 000 people (AED, 2019[23]).

Some aspects of the programme to certify Science and Technology Enterprises could be improved

The "Development of National Science and Technology Enterprises" programme provides guidance to firms to be recognised as science and technology enterprises (STEs). About 380 firms are certified by the government as STEs, with more firms in the process of becoming certified. Companies with the STE certification are eligible for support policies and incentives from the Vietnamese government (as per Decree No.13/2019/ND-CP), notably a corporate tax exemption for four years followed by a further 50% reduction for nine years in taxes on income generated from the development or sale of products attributed to R&D activities. Furthermore, STEs with mortgages are able to receive preferential loans from commercial banks with up to a 50% interest rate reduction and may get a further reduction or exemption on their water and land surface lease fees. They are also allowed to utilise facilities and equipment of government research labs and technology incubators with free priority access.

To be granted certification, a company must be able to create or apply scientific and technological results that have been evaluated by recognised agencies and must generate at least 30% of the total turnover from scientific and technological activity. If the minimum 30% of turnover condition is not met for a year, the tax incentive does not apply on that year. If the minimum threshold is not met for five consecutive years, the certification is withdrawn.

The STE programme is a valuable initiative although there are certain eligibility conditions, such as the requirement that 30% of the company turnover stems from scientific and technology-related work, which are difficult for enterprises to prove and for government to monitor. An alternative option would be to use other criteria to define STEs that are easier to measure, such as the share of the company workforce with a Science, Technology, Engineering or Mathematics (STEM) undergraduate or graduate degree or still the amount of R&D spending relative to total revenues.

The SME Support Law and the Supporting Industry Programme also prioritise innovation support

Although the SME Support Law is not primarily focused on innovation, certain incentives related to training and consultancy (on technical regulations and standards) specifically target innovative start-ups/SMEs and SMEs participating in global value chains. The law also states that organisations such as incubators and co-working spaces are entitled to reductions or exemptions from land rent, land usage fees and non-agricultural land use tax, as well as from corporate income taxes for a limited period of time. Furthermore, domestic SMEs operating in industrial parks or high-tech zones are eligible for reduced land prices.

The Programme on the Development of Supporting Industry (Decision No. 68/QD-TTg issued in January 2017) targets existing and potential suppliers of multinational enterprises in six specific industries (textiles and apparel, leather and footwear, electronics, automotive, metal products, and high-tech). Although it is not officially recognised as an innovation programme, it mostly consists of tax incentives encouraging R&D and technology transfer (see chapter 6 for more details).

There are some initial policy efforts to develop a national start-up ecosystem

In addition to fostering innovation in established businesses, more recently Viet Nam has also given priority to its start-up ecosystem. The main programme is Programme 844 (Decision 844/QD-TTg on "Supporting the National Innovative Start-up Ecosystem to 2025"), also known as the Initiative for the Start-up Ecosystem in Viet Nam (ISEV), and has three major goals:

- To improve the legal framework for start-ups;
- To create a national start-up portal that provides relevant information for innovative start-ups (e.g. technology, patents, standards, sources of finance, business models, events);

- To support 2 000 start-up projects, of which 600 become start-up firms, and of which 100 secure follow-on investments or are acquired by an incumbent firm for a total business value of VND 2 trillion (approximately USD 95 million).

The main ISEV activities focus on setting adequate policies and legal frameworks for start-ups and building capacity and networks for the stakeholders of the ecosystem. The programme has reached a number of milestones, such as the launch of the national start-up portal (https://startup.gov.vn); support to 14 start-up organisations with funding of VND 20 billion (approximately USD 1 million); and the organisation of *Techfest*, an annual national festival for innovative start-ups.

The Ministry of Science and Technology (MOST) is the main entity responsible for ISEV, although implementation on the ground is mostly delegated to the National Agency for Technology Entrepreneurship and Commercialisation (NATEC). NATEC has about 80 staff members, of which 30 work in five different policy divisions and around 50 work in centres that provide training of trainers, mostly to managers of business incubators.

Government-backed business incubators are an important part of the start-up ecosystem. They are selected for government support by a panel of experts, based on performance metrics related to the management of the business incubators and tenant firms. There are about 40 business incubators in Viet Nam, with 20-25 under government support every year. About one-third of the incubators receiving support are public entities, while the rest are privately operated. There is a general perception that private incubators perform better because they are often run by former entrepreneurs and investors, whereas public incubators are generally university-based and managed by professors with limited business experience. There is also significant heterogeneity across provinces in terms of the quality of incubators, which calls for measures to develop and monitor minimum quality standards.

Complementary to ISEV, the “Supporting students’ start-ups” programme (Decision No. 1665/QĐ-TTg of 30 October 2017), referred to as Programme 1665, also forms part of Viet Nam’s start-up policy. The two programmes are closely related, as Programme 1665 on student entrepreneurship is partly intended to support Programme 844 with relevant start-up projects and companies.

Viet Nam’s start-up ecosystem has also benefited from international donor funding in the past years. A prime example is the Viet Nam-Finland Innovation Partnership Programme (IPP), which ran from 2009 to 2018 and focused on supporting the infrastructure for innovative start-ups and the ability of start-ups to develop new products and services for international markets. An evaluation prepared for the Finnish Ministry for Foreign Affairs concluded that the IPP project performed relatively well in terms of impact, relevance, effectiveness and efficiency (Frisky and Anjoy, 2019[24]).

More attention is needed to building innovation capabilities at the firm level

Viet Nam’s innovation policies and programmes have a strong technology and product development orientation. Most of them have a supply-led focus, as they seek to encourage SMEs to use new technologies and produce high-tech products and services (e.g. the NTIP and the STE programmes). However, most Vietnamese SMEs lack innovation capabilities, leaving room for policy efforts to focus on strengthening these capabilities in the small business population.

Box 5.5. Mittelstand-Digital, Germany

Description of the approach

"Mittelstand-Digital" is an initiative of the Federal Ministry of Economic Affairs and Energy (*Bundesministerium für Wirtschaft und Energie, BMWi*) that seeks to support SMEs in digitising, networking and introducing Industry 4.0 applications.

In total, there are 25 Mittelstand 4.0 Competence Centres nationwide that have learning and demonstration factories that offer information sessions and opportunities to learn how digital technologies can transform a business. Of these Competence Centres, 18 are regional and support SMEs in numerous digitisation issues, such as cloud computing, communications, trade, and processes. In addition to the regional centres, there are seven national Competence Centres, each one specialised in a dedicated area: Digital Crafts, Planning and Construction, eStandards, Usability, Textiles Network, IT Industry, and Communication. These specialised centres are supported by regional contact points and offer their support to companies all over Germany.

Factors for success

SMEs usually do not have dedicated ICT departments and may lack the financial resources to use external IT support companies. However, they gain from modernising their business processes through new software solutions, internet applications, and standardised e-business processes. Mittelstand-Digital can help SMEs to overcome barriers, such as lack of awareness, knowledge, and competence, and support their innovation capabilities through the implementation of modern businesses practices.

Obstacles and response

During the implementation of such a programme, a number of aspects need to be taken into account (OECD, 2016[27]). First, Competence Centres have to translate information into the "language of SMEs" in order to have sufficient outreach. Second, the challenges of digitisation are varied, so the format of events (e.g. webinars, entrepreneurs' breakfasts, weekend meetings) and publications need to be tailored to the recipient SMEs. Third, when advice is offered for free, SMEs may harbour the belief that "what costs nothing is worth nothing." This needs to be overcome by proving that the information provided is actually of value and helpful.

Relevance for Viet Nam

A scheme in the spirit of Mittelstand-Digital could assist Vietnamese SMEs in raising their innovation capabilities by introducing ICT solutions. For example, SMEs producing traditional crafts could benefit from the creation of national competence centres similar to those on Digital Crafts or the Textile Network in Germany.

Sources of further information

OECD (2016[27]), "Stimulating digital innovation for growth and inclusiveness: The role of policies for the successful diffusion of ICT", OECD Digital Economy Papers, No. 256, OECD Publishing, Paris, https://doi.org/10.1787/5jlwqvhg3l31-en; https://www.mittelstand-digital.de.

For example, experiences from different countries indicate that helping SMEs to adopt ICT and digital solutions is an effective way of assisting the development of their innovation capabilities. The "Mittelstand-Digital" scheme from Germany is illustrative of an initiative that could be of inspiration to Viet Nam (Box 5.5). A second policy option would be innovation vouchers, a popular policy scheme that has been implemented in several countries (Ezell and Atkinson, 2011[25]). The idea behind innovation vouchers is to provide SMEs with small grants to purchase technology or collaborate with external knowledge and technology providers, such as universities and research institutions (see Box 5.6 for an example from the Netherlands). Evidence on the causal impact of innovation vouchers on SME development points to positive long-term effects (Cornet, Vroomen and Van der Steeg, 2006[26]).

Box 5.6. Innovation vouchers – The experience from the Netherlands

Description of the approach

The Innovation Vouchers programme in the Netherlands was initially proposed as part of a menu of innovation policy instruments in 2004. Since SMEs do not make sufficient use of knowledge that is available in the innovation system, the innovation vouchers provide an incentive to introduce SMEs to public research institutions.

Each voucher has a value ranging from EUR 2 500 (small) to EUR 7 500 (large) that can be used by an SME to secure the service of a public research institution to assist with an innovation-related question or problem. The issuing of the voucher serves two main purposes: 1) to empower SMEs to approach knowledge providers to solve their problems, and 2) to incentivise public knowledge providers to work with SMEs. The questions that SMEs address to a public research institution should be application-oriented, so that the knowledge can be practically applied to improve their products or operational processes. Up to 10 SMEs facing similar problems can pool vouchers and thereby increase the size of the project. A total of 3 000 large vouchers were made available in 2006 (OECD, 2008[28]).

Given the small lump sum they provide, vouchers are geared mainly towards small-scale projects leading to product and process improvements rather than breakthrough product innovations.

Factors for success

An evaluation of the innovation voucher programme in the Netherlands found significant long-term benefits for participants (Balabay et al. 2020[29]). Since the demand for vouchers exceeded the available supply, vouchers were allocated randomly through a lottery, which in turn offered the opportunity to evaluate the causal impact of the programme on participants through a randomised control trial (RCT). This exercise showed that 12 years after receiving the voucher, firms in the treatment group compared to firms in the control group had a higher business survival rate (+4%), were more likely to use the national R&D tax credit programme (+5%), had a higher level of R&D activities (+12% in terms of working hours) and had created more jobs (+12%). The positive effects started to materialise soon within 2 years from the lottery and persisted in the long run. In addition, there was a positive productivity effect on those SMEs that followed up the initial voucher by setting up a structural R&D activity.

Relevance for Viet Nam

Innovation vouchers are a low-cost policy with proven positive effects on the performance of SMEs. Viet Nam has a large number of SMEs with low innovation capability and low awareness of the productivity potential of new knowledge and technology. An innovation voucher scheme could help expose low-tech SMEs to business innovation for the first time.

Sources of further information

OECD (2008[28]), A Review of Local Economic and Employment Development Policy Approaches in OECD Countries, Paris https://www.oecd.org/cfe/leed/42771735.pdf

Balabay et al. (2020[29] forthcoming, to be published), “Crossing the bridge towards R&D and innovation: the long-term effect of Dutch innovation vouchers” (working paper). https://www.innovationgrowthlab.org/blog/long-term-impact-dutch-innovation-vouchers-back-future-randomised-controlled-trials#footnote1_x38j6ia

SME internationalisation programmes

The government of Viet Nam has supported trade facilitation in different ways, but trade promotion activities targeted at SMEs are still rare. Furthermore, there is no specific policy direction in the SME Support Law regarding the export development of SMEs, nor is there any reference to SMEs in the “Strategy on exports and imports for 2011-2020 with visions to 2030” (Prime Minister’s Decision 2471/QĐ-TTg, dated 28 December 2011). It can, therefore, be concluded that the objective of SME internationalisation, notably through export development, has not yet received sufficient attention in the government strategies of Viet Nam, which is perhaps surprising given the government’s emphasis on building stronger linkages between domestic companies and multinational enterprises (see chapter 6).

Trade promotion and trade facilitation initiatives

Trade promotion for SMEs needs to be strengthened

The Viet Nam Trade Promotion Agency (VIETRADE), an agency under the Ministry of Industry and Trade (MOIT), has responsibility for the country’s export promotion efforts. Formal trade promotion efforts in Viet Nam are relatively recent. In 2010, the Government developed its first National Trade Promotion Programme (NTPP) as a source of funding for industry associations, trade promotion agencies, and local governments to implement support activities to build the export capacity of enterprises.[13] In 2018, the annual budget of the NTPP was VND 103 billion (about USD 4.3 million), which is not much given the size and export potential of Viet Nam. Since the creation of this programme, nearly 3 000 businesses have participated in trade promotion activities achieving almost USD 10 billion in export contracts (MOIT, 2019[30]). In addition to supporting the participation of SMEs in international trade fairs and exhibitions, VIETRADE supports SMEs by providing access to export consultancy and business matchmaking opportunities.

Significant trade facilitation efforts are underway, but SMEs need to be more closely involved

Significant trade facilitation efforts are underway, largely supported by the USAID-funded (USD 21 million) five-year Trade Facilitation Programme (2018-2023) to help Viet Nam implement a risk-based approach to border clearance and improve efficiency of border procedures. One important component of this project has been the establishment of the National Single Window, an online one-stop shop for customs clearance that allows exporting and importing companies to complete required customs clearance documents electronically.

By the end of 2019, 13 government agencies had submitted 198 (out of a total of 250) administrative procedures on the NSW site. However, due to limited technical capacities, some ministries have been slow to integrate into the system, and programmes to support SMEs in using this facility have not yet been defined (OECD/ERIA, 2018[5]). The General Department of Viet Nam Customs has delivered training on the NSW procedures and, going forward, would be recommended to ensure the specific targeting and inclusion of SMEs in this training. In addition, more widespread efforts are needed to promote usage by SMEs of the Viet Nam Trade Information Portal, a web-based database launched in 2017 to provide all traders with ease-of-access information on the regulatory requirements for exporting and importing.

Vietnamese SMEs would benefit from a comprehensive export-readiness programme

While trade facilitation and trade promotion efforts are key to building the export capacity of a country, it would also be important for Viet Nam to strengthen the export-readiness of SMEs through more intensive training and support programmes. Although VIETRADE reports that a variety of export-related training is available to new and small exporters, what appears to be missing is a co-ordinated and comprehensive export-readiness support programme. In Brazil, for example, the national export promotion agency has delivered for many years a standardised pre-qualification export-readiness programme for nascent and novice small exporters which has achieved good results and which could be of inspiration to Viet Nam (Box 5.7).

Box 5.7. The export-readiness training and development programme for Brazilian micro and small enterprises

Description of the approach

The Brazilian Agency for Promotion of Exports and Investment (APEX-Brasil) is the key federal agency for facilitating access of Brazilian companies to international markets and diversifying the destination of Brazilian exports. It has offices in several Brazilian states and 10 offices abroad that work closely with the Trade Promotion and Investment Sectors in Brazilian embassies and consulates.

APEX-Brasil operates a number of programmes that target SMEs at various stages of the exporting and internationalisation process. This includes exporter training and capacity building, export promotion activities, business matchmaking, and prospecting and trade missions abroad. These initiatives are all directed to increasing the number of Brazilian exporters. In 2018, 15 737 companies were supported by APEX-Brasil. Exports from these companies reached USD 51.5 billion to 233 markets, representing 21.5% of the total Brazilian exports. The agency estimates that 75% to 80% of its clients are SMEs.

Of particular note is the comprehensive Export Qualification Programme (*Programa de Qualificação para Exportação*, PEIEX), an exporter training programme targeting micro and small enterprises that have never exported or have very limited exporting experience. It is implemented in regions where there is a density of companies with export potential, which have been identified as part of a mapping exercise in each state. In these locations, APEX-Brasil partners with selected educational and research institutions, such as universities, technology parks and industry federations, to form PEIEX "nuclei". These nuclei partners bring together experts in business management and foreign trade from the region who are then trained in the PEIEX methodology and deliver the programme that helps the companies prepare to export, including information and knowledge on how to develop an export strategy. Each PEIEX-trained technician/facilitator handles 12 companies. The PEIEX partners help to estimate the number of companies with potential to receive the PEIEX service, recruit companies for the programme and provide other services to companies in need of management improvements.

Some of the training is delivered in group sessions, but the programme consists largely of visits to each enterprise by a trained PEIEX technician. During the first visit, the technician assesses the company's exporting potential. During the second visit, the technician conducts a diagnosis of the enterprise and determines its level of export-readiness. Following this, the local PEIEX core team prepares a work plan providing guidance on the improvements needed in order to meet the requirements for export activity (e.g. marketing, financing, quality). This intervention is followed up with training and monitoring meetings to help the participant improve product and process management. At the end of 18 months, the enterprises with an exportable product offer are given the opportunity to participate in international trade promotion initiatives and matchmaking opportunities organised by APEX-Brasil and its partners. Participation in PEIEX is free of cost to the enterprises.

Participants are recruited from a variety of sources, including APEX's supporting partners (e.g. state governments, industry federations, development banks, and the national micro and small business agency), and APEX-Brasil's other programme streams.

Success factors

The PEIEX Programme has achieved a significant amount of success. Over the past nine years, almost

25 000 enterprises have completed the programme. In 2018, the programme served 7 258 companies through 41 regional centres (PEIEX "Nuclei") covering 1 301 Brazilian municipalities: 1 109 of the companies were exporters, and 301 progressed to participation in the "1st Action to Export" programme (APEX-Brasil, 2019[32]).

Obstacles and responses

Achieving better outcomes from the training in terms of take-up of actual export activity has been a challenge, and several actions have been taken to improve the performance of the PEIEX Programme. The programme adopted a more rigorous definition of the profile of enterprises able to join the programme, which included evidence of an exportable product offer and commitment to completing the programme. APEX improved the technical basis for choosing PEIEX partners (e.g. more local knowledge of companies, greater technical capacity), training activities for the PEIEX technicians, and its communication and orientation to the Nuclei. It also strengthened business opportunities for trainee companies through the 1st Action to Export programme (APEX-Brasil, 2018[31]).

Relevance to Viet Nam

Viet Nam's SMEs could be well served by the development of a similar standardised exporter training programme. In this approach, VIETRADE could partner with the SME Support Centre in the Viet Nam Chamber of Commerce and Industry (VCCI), the MPI's SME Technical Assistance Centres (TACs), provincial SME Support Centres and local educational and training institutions for delivery of the programme according to a standardised methodology, including for the certification of trainers.

Sources for further information

APEX-Brasil website at: https://portal.apexbrasil.com.br/qualifique-sua-empresa-peiex/; Email: apexbrasil@apexbrasil.com.br/

APEX-Brasil (2018[31]), "Agência Brasileira de Promoção de Exportações e Investimentos, Relatório de Gestão do Exercício de 2017", Ministério das Relações Exteriores, Brasilia, https://portal.apexbrasil.com.br/wp-content/uploads/2019/01/portal.apexbrasil.com.br-relatorio-de-gestao-2017-final.pdf/

APEX-Brasil (2019[32]), Relatório Integrado de Gestão 2018, Ministro das Relações Exteriores, (Integrated Management Report 2018, Minister of Foreign Affairs), Brasilia, https://portal.apexbrasil.com.br/wp-content/uploads/2019/05/relatorio-integrado-de-gestao-2018-da-apex-brasil.pdf/

E-commerce policies

E-commerce support has recently been introduced, but requires complementary measures specifically targeting SMEs

Another policy mechanism for engaging more SMEs in international trade is through the promotion of e-commerce. In this area, a National E-Commerce Development Programme (2014-2020) was approved by the Prime Minister in 2014 and has been implemented through the National E-Commerce Master Plan 2016-2020. In addition to putting into place the legislation and mechanisms to facilitate the development of e-commerce (e.g. national e-commerce payment system, digital signatures for ensuring the security of e-commerce transactions, popularising the use of credit cards), the programme has also aimed to build an online sales solution to assist SMEs in implementing e-commerce strategies as well as to support the participation of Vietnamese firms in major e-commerce platforms. The objectives of the programme have been to encourage the start-up of e-commerce enterprises, facilitate the integration of e-commerce by existing enterprises, and develop credible cross-border e-marketplaces. The target is for 50% of domestic enterprises to have an Internet presence by 2020 and for business-to-business transactions to account for 30% of import-export turnover.

There are a number of obstacles that domestic SMEs would need to overcome to make these objectives achievable, such as the lack of adequate human resources, concerns about internet security and the safety of online payment systems, and the high logistical costs of delivery services. In addition, in order to grow their business online, SMEs would need to train their employees on online marketing tools, customer service and brand building, as well as to develop knowledge of how to make the best use of e-commerce platforms. At present, specific policy support for the use of e-commerce by SMEs is lacking and initiatives to increase the online capability of SMEs have been fragmented (OECD/ERIA, 2018[5]). An exception has come from the Asian Development Bank (ADB), which in 2017 supported the launch of an e-commerce platform for SMEs in the Lower Mekong Region and the creation of a shipping service to help buyers arrange international shipping from this region.

Some interesting e-commerce initiatives have also been driven by the private sector, notably by the main international e-commerce platforms. For example, Alibaba has been a forerunner in the business-to-business e-commerce scene in Viet Nam by providing e-commerce support to about 500 exporters in 2012 and later by creating the Viet Nam Export Support Alliance in collaboration with its local partners (EVBN, 2018[47]). In January 2019, VIETRADE also announced a partnership with Amazon Global Selling to boost exports and the brand strength of Vietnamese enterprises through e-commerce over the period 2019-2021. This partnership includes a global e-commerce export and brand development programme and the delivery of e-commerce training for Vietnamese enterprises.[14]

More generally, to succeed in online business, exporters also need to have quality and safety certifications to create confidence among foreign buyers. In this instance, it could be important for the National Productivity Development Programme of the Ministry of Science and Technology (MOST) to target SMEs with a focus on expanding the quality of their products to meet international standards.

Public procurement policies

Vietnamese legislation does not sufficiently involve SMEs in public procurement

Public procurement of goods and services has the potential to significantly expand market opportunities for SMEs. As a result, governments around the world have increasingly taken actions to give SMEs better access to public markets (OECD, 2018[33]). This entails addressing the specific characteristics of government contracts that may adversely affect SMEs, such as the complexity of procedures or high technical and financial capacity requirements.

In Viet Nam, the public sector is a major market for the provision of goods and services. Between 2011 and 2015, capital investment from Viet Nam's state budget accounted for about 29% of total investment in the economy, with roughly USD 25 billion spent on procurement, including by provincial and municipal governments and state-owned enterprises (SOEs).

Although public investments constitute a large fraction of total investments in the Vietnamese economy, policies involving public procurement to support SMEs are limited. Article 14 of the procurement law (Law on Bidding No. 43/2013/QH13 dated 26 November 2013) stipulates that "small-size enterprises" are entitled to preferential treatment in the selection of tenderers for the supply of "advisory services, non-advisory services, construction and instalment" and can be awarded additional points in the assessment of bids. Although Article 6 of a further decree on the implementation of the "Law on Bidding" states that construction contracts below VND 5 billion are reserved for SMEs,[15] the procurement law does not set policy targets with regards to the percentage or volume of procurement contracts directed to SMEs. Similarly, there is no data or register with information on government contracts involving SMEs. All of this makes it difficult to assess the extent to which SMEs are actually recipients of government contracts.

Therefore, the development of a database to track the involvement of SMEs in public procurement would be a crucial first step towards building more evidence-based policies in this domain. In addition, since

SOEs account for a large share of production in Viet Nam, the government could also consider developing specific targets and policy programmes to encourage SOEs to procure from SMEs.

Box 5.8. Procurement set-asides for small business – the United States

Every year, the US federal government purchases approximately USD 400 billion in goods and services from the private sector. The federal government stipulates that at least 23% of all federal government contracting dollars should be awarded to small businesses. Targeted goals are also established for subcategories of the small business sector:

- Women-owned small business – 5%
- Small disadvantaged business – 5%
- Service-disabled veteran-owned small business – 3%
- Small business in Historically Underutilised Business (HUB) Zones – 3%

In the United States, set-asides are used to help small businesses compete for and win federal contracts. When market research concludes that small businesses are available and able to perform the work or provide the products being procured by the government, those opportunities are "set aside" for them. There are different types of set-asides, some of which are open to all small businesses and others open only to small businesses meeting other additional criteria.

Set-asides based on contract value

Every federal government purchase with an anticipated value above the micro-purchase threshold of USD 3 500 and up to the Simplified Acquisition Threshold (SAT) of USD 150 000 is required to be automatically and exclusively set aside for small businesses. There must be at least two or more small businesses (Rule of Two) that are competitive in terms of market prices, quality and delivery for an automatic set-aside to take place. Contract opportunities above the SAT of USD 150 000 shall also be set aside if the Rule of Two is met.

Subcontracting requirement

Contract opportunities above USD 700 000, or above USD 1.5 million for construction contracts, awarded to larger companies must have small business subcontracting plans to the extent that there are subcontracting opportunities.

Sole-source programmes

In addition, there are sole-source development opportunities under the 8(a) Business Development Programme that allows sole-sourcing of federal contracts for HUB Zones, Service-Disabled Veteran-Owned Small Businesses, and Women-Owned Small Businesses.

Source: OECD (2018, p. 87[34]), *SMEs in Public Procurement: Practices and Strategies for Shared Benefits*, https://www.oecd.org/fr/publications/smes-in-public-procurement-9789264307476-en.htm. Also see, Small Business Administration, https://www.sba.gov/contracting/government-contracting-programs/what-small-business-set-aside.

There are several policy options which Viet Nam could consider to enhance the access of domestic SMEs to government contracts

Viet Nam could also draw inspiration from existing international practice to learn on the different measures that can facilitate the participation of SMEs in public procurement. A common option, for example, is the use of procurement quotas (set-asides) or reserving contracts under a certain threshold value for SMEs (see the illustrative example from the United States in Box 5.8). Other measures include dividing contracts into smaller lots to make tenders more accessible to SMEs; reducing or simplifying the required documentation and procurement procedures; the use of e-procurement (since it increases the transparency of tendering opportunities); encouraging the involvement of SMEs as subcontractors in large contracts; training SMEs on how to apply for government contracts and public officials on how to draft calls more accessible for SMEs; and establishing a directory on SME products and services which can be consulted by procurement officials when issuing tender calls (OECD, 2008[28]).

Workforce skills upgrading programmes

Public support for workplace-based training in SMEs is very limited

As shown in chapter 3, the Vietnamese labour market is challenged by a general shortage of skilled workers with practical training, mismatches between the demand and supply of skills, and insufficient consideration of the needs of employers in the design of technical and vocational education and training (TVET) programmes.

Support of targeted workplace-based training in SMEs should also receive more attention in Vietnamese legislation. The guidelines for the SME Support Law (Decree No. 39/2018/ND-CP dated 11 March 2018) state that SMEs are entitled to support for some types of training activities. In particular, the state budget shall cover at least 50% of the total expenses that SMEs incur in a training course in business administration;[16] trainees in SMEs at the elementary TVET level (and for courses lasting no more than three months) are eligible for free tuition fees; and SMEs that provide the training premises may qualify for reimbursement of some of their training expenses.

However, as noted in chapter 3, Viet Nam's current TVET system is geared more towards providing basic skills to labour market entrants and the unemployed than towards upgrading the skills of employed workers. Thus, Vietnamese SMEs lack a targeted programme that seeks to enhance the skills of their workers. Furthermore, SMEs find it difficult to commit to hiring TVET graduates, a common requirement for collaboration with TVET institutes, since most of their programmes are centred on short basic training courses that do not meet their real skills needs.

One way in which the national TVET system could become more attractive to SMEs is by supporting more demand-led, enterprise-based training to upgrade the skills of employed workers. The example of the Skillnet Ireland programme could serve as an example (Box 5.9). The inclusion of multinational enterprises in sector-specific learning networks could also enable SMEs to benefit from the transfer of knowledge of international standards, management practices and technology, and would align with the national policy target of linking domestic SMEs to global value chains.

Box 5.9. Public-private co-operation in workforce training - Skillnet Ireland

Description of the approach

Skillnet Ireland is a national agency responsible for the promotion and facilitation of enterprise-led workforce training. The agency supports and funds the creation of sector-specific learning networks of firms. A Skillnet Network is a collection of private sector businesses that collaborate to identify common skills and tailored training needs within their sector or region. Skillnet Ireland then co-ordinates the design, sourcing and delivery of the training in collaboration with industry training providers and higher educational institutions. The training networks are partly state-funded through the Department of Education and Training's National Training Fund, and partly financed from network members' contributions. In 2019, 70 Skillnet Learning Networks operated across sectors such as ICT, pharma, financial services, agriculture, retail and transport. Training was provided to over 70 000 workers. Of the 28 422 member companies, 93% were SMEs.

Factors for success

A major factor for success is that Skillnet produces value-added for member firms. Much of the training undertaken through the Skillnet Networks would not have been undertaken by employers in the absence of the programme and the vast majority of employers would not have found training of similar quality. One of the greatest advantages of the Skillnet model is that it reduces the administrative costs of training, which is particularly helpful for SMEs.

Obstacles and responses

The development and growth of strong Learning Networks require time and resources to establish the necessary infrastructure and processes. The establishment of Skillnet Ireland was guided by a clear financing model, supported by the state government, as well as clear procedures for setting up new networks, which were key to overcoming these challenges.

One of the obstacles for member companies, especially SMEs, consists in encouraging their employees to participate in the training. This requires strong communication about the benefits of upskilling for the mutual gain of both the business and the employee. SMEs may also have a low motivation to pay a contribution fee to the Network. This can be overcome by ensuring that the networks continue to add value to their business.

Relevance for Viet Nam

Viet Nam needs to strengthen workforce training in SMEs. Skillnet Ireland provides an example of a needs-driven training programme that is centred on SMEs and that hinges on a network approach to training delivery. This approach has become increasingly common among SMEs because it allows them to pool resources and access training of higher quality at lower per-capita costs, in addition to encouraging peer learning.

Sources for more information

Skillnet Ireland website: https://www.skillnetireland.ie

OECD (2019[35]), *OECD Skills Strategy 2019, Skills to Shape a Better Future*, https://www.oecd.org/publications/oecd-skills-strategy-2019-9789264313835-en.htm

European Commission (2019[36]), *Skills for Smart Industrial Specialisation and Digital Transformation*, https://www.clustercollaboration.eu/sites/default/files/news_attachment/skills_for_smart_industrial_specialisation_and_digital_transformation_report.pdf

Entrepreneurship education

Entrepreneurship education at primary and secondary levels of education is virtually lacking

The objective of entrepreneurship education is to instil, through the national education system, a positive view in the younger generations about the effects and possibilities related to entrepreneurial activity. It entails the suite of pedagogical activities to promote entrepreneurial skills, such as creativity, risk-taking, and leadership, as well as knowledge about the entrepreneurial process. Multiple tools are used in the teaching of entrepreneurship: classroom lectures, business games, the creation of real or virtual student business start-ups, business idea competitions, guest speakers, etc.

Entrepreneurial learning is not yet an integrated component of Viet Nam's national educational system (OECD/ERIA, 2018[5]). Entrepreneurial learning at the elementary level of the education system is not discernible and at the secondary level is evident mainly as an outcome of fragmented donor-funded initiatives, for example, the 5-day Young Entrepreneurs Adventure Camp for high school students co-organised by Viet Nam Young Entrepreneurs (an NGO) and US-based Babson College to nurture entrepreneurial mind-sets and connect the students with peers who share an interest in entrepreneurship.

Officials from the Ministry of Education and Training (MOET) have stated the importance of instilling the spirit of entrepreneurship in Vietnamese youth at an early age. In the early stages of the development of entrepreneurship education, the creation of a multi-level National Commission on Entrepreneurship and Education, as done in the Netherlands, can help identify a programmatic approach to developing a continual learning path for students from primary school through to the university level. From the analytical work of this Commission, the Dutch government launched an Action Plan for Entrepreneurship and Education that led to the introduction of entrepreneurship education programmes at various levels of the education system (see Box 5.10). A similar approach could be emulated by Viet Nam's MOET.

Box 5.10. The National Entrepreneurship Education Programme - the Netherlands

Description of the approach

In 2000, the Dutch government launched the National Entrepreneurship Education Programme as part of its policy to create a more entrepreneurial society. The Ministry of Economic Affairs, in co-operation with the Ministry of Education, Culture and Science, established a broad-based, consultative Commission on Entrepreneurship and Education consisting of 16 people from different fields of education, employer associations, entrepreneurs (male and female) and multicultural organisations to plan the strategic integration of entrepreneurship at all levels of the education system. All levels of education were represented in the membership of the Commission. The Ministry of Economic Affairs served as its secretariat.

The Commission was mandated to develop a portfolio of good practices/projects in entrepreneurship, spanning all levels of education from primary school to university, and which would serve as examples that could be easily duplicated by other educational institutions. The ultimate objective was to develop a continual learning path from primary school to secondary school, vocational education and university, thereby creating a snowball-effect throughout the education system. To reach this goal, the Commission organised a series of meetings with experts and representatives from the different levels of education; completed an inventory of the existing good practice initiatives that fit into this learning path; and identified barriers faced by schools and universities in promoting entrepreneurship education.

The final outcome distinguished five grade/age appropriate phases in the entrepreneurial learning journey.

- *First experiences with entrepreneurship (primary schools)*: Students are introduced to the notion of entrepreneurship as a life option. At this stage, students learn through play some general skills, such as working in groups/projects, orientation to production, and research.
- *Consciousness of skills (lower secondary schools):* Students gain an understanding of their own skills and talents.
- *Creative applications and enrichment of experiences (upper secondary schools):* Students are introduced to learning by experience and to elements of competition. This could involve mini-enterprise projects where students from secondary and higher vocational education run their own enterprise over the course of a year supported by a teacher and mentor (often an entrepreneur).
- *Preparation and real start-up:* At this stage, educational institutions raise interest in “the doing” of entrepreneurship. In higher education, this may mean support of a real start-up as part of the regular curriculum.
- *Growth and innovation phase:* In this final phase, support for start-up firms becomes more important. Higher education can provide supporting facilities (finance, personnel, knowledge). Co-operation with intermediaries, such as chambers of commerce and former students, can be very useful in supporting the transfer of knowledge and the overall enterprise growth.

To stimulate the broader application of entrepreneurship projects in the education system, the Dutch government approved a Subsidy Scheme on Entrepreneurship and Education to fund small pilot projects (e.g. seminars, training for teachers, etc.) and the development of learning instruments for entrepreneurship education in vocational institutions and universities.

From 2007-2011, the Ministry of Economic Affairs and the Ministry of Education, Culture and Science implemented the Action Programme for Entrepreneurship and Education, which continued the policy of subsidising educational institutions to integrate entrepreneurship in their programmes and encouraged the gathering and transfer of information on entrepreneurship education projects between educational institutions.

The government also supported the involvement of employers' organisations in initiatives to bring entrepreneurship into education. Notable from this engagement was the development of an entrepreneurship module in upper secondary vocational education.

Success factors

Working on school and university curricula was a critical factor of success because it safeguarded the structural place of entrepreneurship in the education system and prevented the risk that projects would only have a temporary effect. Moreover, the build-up of a portfolio of good practices for every education level, to serve as examples for other institutions, helped ensure the diffusion of entrepreneurship education across different institutes. The introduction of the entrepreneurship module at the upper secondary vocational education level contributed to the realisation of TVET providers that entrepreneurship is a cross-sectoral topic and led to the inclusion of entrepreneurship courses in vocational education.

Obstacles and responses

The major barriers, as noted by Dutch officials and experts, involved giving entrepreneurship a structural place in the curricula of the different levels of the education system, changing the often negative culture towards entrepreneurship within the education sector (including entrepreneurship as a legitimate area of study), and training teachers who could teach students about entrepreneurship.

Relevance to Viet Nam

Viet Nam has not advanced a host of programmes and activities supporting entrepreneurship education. The creation of a National Entrepreneurship and Education Commission and the subsequent launch of a national entrepreneurship education programme could help promote a more strategic approach to entrepreneurial learning objectives and outcomes at all levels of the educational system.

Sources for further information

"Entrepreneurship education in the Netherlands", prepared by Technopolis Group as part of the "Entrepreneurship 360 – Promoting entrepreneurial learning in primary and secondary education and in vocational education training project" commissioned by the European Commission (see: https://www.schooleducationgateway.eu/downloads/entrepreneurship/Netherlands_151022.pdf/

There is a stronger offer of entrepreneurship education at the university level, but this is not yet integrated into the national curriculum

The government has made it a priority to introduce entrepreneurship to higher education students. This is evident in the Prime Minister Decision No. 1665/QD-TTg dated 30 October 2017 approving the "Scheme for Supporting Students' Start-ups to 2025" to equip students in educational and training establishments with entrepreneurship knowledge and skills. This scheme supports the development of educational materials for innovative start-ups in Viet Nam, training for university professors in the teaching of entrepreneurship, an annual Start-up Day to be held at every university in the country, incentives to encourage universities to promote a start-up culture among students, and funding for pilot models of strong university incubators in three universities.

In line with the Prime Minister's Decision, the MOET introduced the "Supporting Student Entrepreneurship 2017-2020 with a Vision towards 2025" plan (Decision No. 1230/QD-BGDDT of 30 March 2018) with the intent to make entrepreneurial learning mandatory for every university student, regardless of major, and to provide opportunities for students to start businesses (e.g. start-up clubs, start-up events, start-up training support, entrepreneurship/incubator centres and co-working spaces). This plan also instructed all higher education institutions, including vocational schools, to have a plan for implementing entrepreneurship education by 2020.

As of 2020, some specific universities had launched entrepreneurship education initiatives, which were most often funded by international donor organisations. These included, for example, the Research and Incubating Centre at the National Economics University in Ha Noi and the Maker Innovation Space at the University of Da Nang. The government has also co-operated with international organisations to foster entrepreneurial learning initiatives, such as through the Viet Nam-Finland Innovation Partnership Programme (IPP)[17] which trained 23 lecturers and staff from 13 Vietnamese universities, colleges, and accelerators on the promotion of entrepreneurial learning. However, even the main universities in Viet Nam have not yet built a full entrepreneurship curriculum for their students, at best offering discrete short-term courses in functional areas of business studies, such as marketing, management and finance with a primary focus on theoretical content delivered in a lecture format (Dao, 2018[38]).

At the university level, Viet Nam may find the ASEAN Common Curriculum for Entrepreneurship a useful framework for designing an entrepreneurship education curriculum (AsiaSEED, 2012[39]). Core subjects covered in the curriculum include: entrepreneurial leadership, business planning, business policy and strategy, operations management, human resource management, marketing, business creativity, commercial law, communications, financing, environmental studies, business start-up and information technology management. The curriculum approach follows a consultation-based learning methodology involving students, academics and SMEs, and allows for localised material in addition to the common content, with suggestions for teaching methods and learning activities.

It is also important to take a cross-disciplinary approach to entrepreneurship teaching to provide the opportunity for non-business students to gain knowledge about the entrepreneurial process and learn entrepreneurship skills. This is especially true for students in science and engineering degree programmes as well as for those in the arts and professional schools, since future entrepreneurs will come from all kinds of educational backgrounds, not only from business administration programmes.

There is some evidence of cross-disciplinary projects in Viet Nam supported by international donors. The United States Agency for International Development (USAID) together with Dow Viet Nam has been delivering a programme to bring engineering students into the entrepreneurship domain through an investor-style business plan and pitch competition: i.e. the Maker to Entrepreneur Programme (MEP): Venture Demo Day.[18] The aim of MEP is to inspire students to apply innovation and entrepreneurship to community development problems, while helping young inventors to commercialise and scale their innovations. In addition, in 2019, 30 engineering faculty from Vietnamese universities were trained by Arizona State University on developing entrepreneurship lessons tailored to young engineers. These professors then mentored MEP venture teams competing at the Venture Demo Day to develop their engineering projects into viable products and prepare their pitches. Programmes such as this are a starting point for bringing entrepreneurial skills within the reach of engineering students and should be further extended.

Entrepreneurship education at the technical and vocational education and training (TVET) level needs further support

In response to the Prime Minister Decision No. 1665/QD-TTg of 30 October 2017, the Ministry of Labour, Invalids and Social Affairs (MOLISA), the line ministry responsible for TVET in Viet Nam, also proposed a strategic plan to integrate entrepreneurship education at vocational schools and colleges. This plan included teacher training, entrepreneurship training for students, and the development of related training materials and knowledge resources.

However, many TVET institutes have received limited guidance on how to infuse entrepreneurship in their existing curriculum or extracurricular activities or on how to develop linkages with the business community (Tien, Binh and Chuc, 2019[40]). Furthermore, there is also an insufficient number of lecturers trained on entrepreneurial learning (Tien, Binh and Chuc, 2019[40]). This situation should be addressed by enabling the technically-oriented instructors to participate in intensive training-of-trainer courses on the teaching of entrepreneurship course material, including on the selection of entrepreneurial teaching content, variation in teaching methods and methods of assessing students.

Although the government has committed VND 3 billion to support the national project to build the innovation and entrepreneurship ecosystem, the budget focuses mainly on large cities and key universities, while it has been difficult for vocational colleges to obtain approval for project funds (Tien, Binh and Chuc, 2019[40]). In this regard, it would help if a specified percentage of central budget assistance would be earmarked for vocational colleges, with additional funding sources that could come from local governments.

Finally, the government of Viet Nam has used in the past the Know about Business (KAB) curriculum of the International Labour Organisation (ILO) to teach entrepreneurial skills to vocational students.[19] KAB was first introduced in Viet Nam in 2005 with the training of 110 Master KAB Facilitators and the translation of training manuals in the local language for the delivery of a 120-hour course. MOLISA could explore the option of using the KAB programme as a core component of entrepreneurship education in the TVET system, in much the same way as the Egyptian Ministry of Education has successfully done (see Box 5.11).

Box 5.11. Implementation of the ILO's Know About Business curriculum in Egypt's TVET system

After a period of years with pilot projects, the Egyptian Ministry of Education has adopted KAB curriculum across the vocational education system. In 2016, the Ministry entered into a 3-year agreement with the ILO to roll-out the KAB programme to 2 000 technical secondary schools that would reach 1.6 million students across the country by 2019 (with project implementation funding from Global Affairs Canada, GIZ and USAID). The aim of the project is to promote an entrepreneurship culture, encourage self-employment as a career option, and create awareness among students of the opportunities for working in small enterprises. The KAB curriculum provides students with knowledge on starting an enterprise, but also prepares them to become better employees. The project includes training of TVET instructors in delivering the curriculum and providing career guidance for students wishing to practice their entrepreneurship skills. By 2018, 34 000 students in 175 technical secondary schools had participated in the KAB curriculum (ILO, 2019[42]).

In addition, a number of university professors have been trained by the ILO as national KAB key facilitators, which included introduction to delivery of the online version of the KAB programme. Blended use of the online version with face-to-face training can reduce the number of classroom-based training hours and make the programme more accessible to a larger number of students. In 2014-15, for example, 31 400 undergraduates accessed the KAB online platform (ILO, 2015[41]).

Sources: ILO (2015[41]), ILO-Cairo 2014/2015 Annual Report, International Labour Office, Cairo; ILO (2019[42]), In Pursuit of Equality & Prosperity in Egypt – 2018 Results, International Labour Office, Cairo

Women's entrepreneurship programmes

The existing programme offering

Viet Nam has introduced a National Strategy on Gender Equality which would benefit from stronger co-ordination

The promotion of women's entrepreneurship has become an important government target in many countries. In Viet Nam, the National Strategy on Gender Equality 2011-2020 has the target of increasing the share of SMEs owned by women to at least 35% of the total by 2020. This strategy outlined a number of solutions for increasing women's participation in entrepreneurship, including ensuring conditions for women's full and equal access to economic resources (e.g. credit, land and market information), training and capacity building.

Ministries and other government bodies were instructed to participate in the implementation of the Gender Equality Strategy within the scope of their assigned functions, including formulating and evaluating annual and five-year action plans. However, no specific entity was identified as responsible for planning, co-ordinating and evaluating the specific actions of the Strategy. The best way to support coherent policy implementation is usually to designate a single government body responsible for co-ordinating and streamlining efforts related to women's entrepreneurship development (OECD, 2012[43]; OECD, 2017[44]). In the case of Viet Nam, such a focal point could be in the Agency for Enterprise Development (AED), which has a mandate for co-ordinating SME policies and programmes, but does not currently have a focus

Box 5.12. The approach of the Philippines to gender mainstreaming in government programmes and activities

The government of the Philippines has prioritised women's entrepreneurship both by enacting gender-specific strategies and by mainstreaming gender concerns into broader statutes and regulations regarding SMEs. The Women's Empowerment, Development and Gender Equality Plan 2013-2016 contained an entire chapter on women in SMEs, outlining a series of strategies to promote and support women's entrepreneurship. In addition, the National Economic Development Authority and the Philippine Commission on Women published guidelines to ensure the gender responsiveness of all government projects and programmes.

As a result, each ministry has been requested to develop a Gender and Development (GAD) Plan to ensure the participation of women in their programmes and activities. In their annual programme monitoring reports, each ministry is also required to produce statistics on the participation of women in their activity (e.g. share of programme recipients/beneficiaries) and the attached budget expenditures. With respect to SME policy, for example, the Micro, Small and Medium Enterprise (MSME) Development Plan 2011-2016 included several provisions targeted at women entrepreneurs and set out the indicators to collect data on women's participation in SME programmes.

Key economic ministries have also established women's empowerment focal points, such as the Women's Desk at the Department of Trade and Industry (DTI). At the local level, one-stop Women's Enterprise Development Desks have been set up in several municipalities and the Negosyo (business support) centres are mandated by the law to encourage women's entrepreneurship and are regularly monitored on whether they achieve this goal.

Source: OECD (2017[44]), Strengthening Women's Entrepreneurship in ASEAN: Towards increasing women's participation in economic activity, OECD, Paris.

on women-owned SMEs. The example from the Philippines, where each ministry is required to develop a Gender and Development Action Plan and report on its results, demonstrates how this could be achieved (Box 5.12).

Women's entrepreneurship support is currently mostly the outcome of international donor initiatives

Viet Nam is to be commended for including a definition of woman-owned SMEs in the SME Support Law (i.e. one in which one or more women own at least 51% of its charter capital). However, the only specific provision for women-owned SMEs in the SME Support Law is a 100% subsidy for training expenses related to business administration. By the same token, the AED does not have any specific programme targeting women entrepreneurs, depending instead on support for women's entrepreneurship development from the Viet Nam Women Entrepreneurs Council (VWEC), the Viet Nam Women's Union, and NGOs. It follows that women's entrepreneurship is currently mostly supported through international donor funding in Viet Nam. Notable initiatives include:

- The USAID Governance for Inclusive Growth initiative, a grant to the Viet Nam Association for Women Entrepreneurs in 2018 to organise training programmes to promote innovative business start-ups among women entrepreneurs and strengthen the network of women entrepreneurs.
- The Netherlands-funded "Enhancing Opportunities for Women's Enterprises" 2016-2020 project, a partnership with the Viet Nam Women's Union to support rural women in entrepreneurship.
- The Global Affairs Canada-funded Women's Initiative for Start-ups and Entrepreneurship 2018-2025 Programme, which supports women entrepreneurs and women-led start-ups with consultancy, training, mentoring, networking, and access to capital and markets.
- The partnership of the US Embassy American Centre in Ha Noi with the Viet Nam Women's Union and the Viet Nam Women's Academy to deliver the "Start-up Smart for Women" training course for women entrepreneurs in 16 provinces in northern Viet Nam.
- The ILO Gender and Entrepreneurship Together (GET Ahead) training project for women in business in Viet Nam, which has trained Vietnamese trainers in the GET Ahead methodology to deliver the training.[20]
- The Australian Aid's Investing in Women Initiative 2012-2020 (AUD 4 million), a partnership with the MPI, which seeks to improve women's economic participation and build markets for women, including by encouraging investment in women-owned SMEs.

Apart from these donor-funded initiatives, the project "Supporting women in starting a business in the period 2017-2025" (Project 939), initiated by the Viet Nam Women's Union and approved through Prime Minister's Decision in June 2017, proposes to provide support to 20 000 women's start-ups and the establishment of 1 200 women-led or women-managed co-operatives. This project encompasses a series of activities, including entrepreneurship skills training courses, matching fairs for women to exchange and learn, trade promotion, incentives for women to develop business ideas, and support for completing business plans and accessing resources to realise the plans. The Prime Minister's Decision stated that funding for the project would come from the state budget, but would be complemented with funding from local governments. Governments in certain provinces have followed through providing resources to support the implementation of the project in their jurisdictions.[21] In the first year of project implementation, more than 8 600 women started a businesses. To August 2019, the project had received more than 35 670 business ideas from women entrepreneurs, and Women's Unions at all levels provided training and instruction for 33 465 women.[22]

The creation of an Expert Panel could help advance policy reform in women's entrepreneurship development

Further development of women's entrepreneurship would be greatly assisted by more specific and accessible support policies. Of particular importance would be the inclusion of women-owned SMEs in the programmes implemented under the SME Support Law. To facilitate this process, the AED could establish a Women's Entrepreneurship Development Expert Panel, which could consist of experts from the private sector and civil society from across the country, including successful women entrepreneurs, representatives from key women entrepreneurs associations, researchers, business development service provides and key international partner organisations. The aim of the Panel would be to identify gaps in services and support measures for women entrepreneurs in Viet Nam and to propose appropriate solutions. An outcome from the Panel discussions could be, for example, a draft policy framework to promote women's entrepreneurship development which could be consulted with relevant ministries, agencies, and international donor organisations and which could lead to an agreed Action Plan with targeted programme deliverables.

Main needs of women entrepreneurs in Viet Nam

The VWEC has recently undertaken a needs-assessment of women-owned SMEs in Viet Nam, identifying access to finance, access to markets and business networks, and access to information and knowledge as the main needs and policy gaps affecting women's entrepreneurship (VWEC, 2018[45]).

Access to financial resources

The International Finance Corporation (IFC) estimates the financing gap for women-owned SMEs in Viet Nam (difference between the supply and demand for financing) at about VND 27 trillion, or USD 1.19 billion (IFC, 2017, p. 51[46]). Women entrepreneurs in the VWEC (2018[45]) study reported facing obstacles due to inappropriate loan application packages and collateral requirements, unsuitable loan terms, lack of collateral, lack of information about available capital resources, weak negotiation skills in borrowing, and lack of support from the spouse/family (necessary because women are required to have their spouse co-sign their loans).[23] The report concluded that credit institutions in Viet Nam should develop loan products suitable to women-owned enterprises through simplified application processes, flexible credit terms and maturities, and a tailored credit rating framework.

Banks in a number of countries have been successful in designing special loan products for women entrepreneurs. A model example is the Inclusive Lending for Aspiring Women Entrepreneurs (ILAW) Programme of the Development Bank of the Philippines, which has a dedicated financing window for women. Often these loan programmes will include a capacity building component. In the case of the ILAW programme, mentoring and coaching is provided to the loan clients by members of the Women's Business Council Philippines (Box 5.13). Similarly, the Women Entrepreneurs Financing Programme (WEFP) of the SME Bank Malaysia requires applicants to attend the Leaders Acceleration Training Programme (LEAP) organised by the Bank's training, consultancy and research arm. This training aims to improve the competencies of women entrepreneurs, while providing an opportunity for the bank to assess the applicant's ability to manage a business. Once the loan is granted, the SME Bank continues to provide business coaching to the women entrepreneurs to help them expand their business.

Box 5.13. The Inclusive Lending for Aspiring Women Entrepreneurs (ILAW) Programme of the Development Bank of the Philippines

In early 2015, the Development Bank of the Philippines created the Inclusive Lending for Aspiring Women Entrepreneurs (ILAW) Business Loans Programme, a lending window to provide financial support to women entrepreneurs and help them grow their businesses beyond micro-credit. This initiative was inspired by the Women's Business Council Philippines (WomenBizPH) in response to a recommendation of the APEC Women and Economy Forum that a gender lens be adopted in establishing financial support and training for women's businesses.

The ILAW programme includes simplified lending procedures, flexible collateral policies, and customised repayment schedules (with terms not to exceed ten years) for women entrepreneurs. It also co-operates with WomenBizPH to offer mentoring and advice to ILAW borrowers. Eligible businesses must be woman-owned and women-directed with business assets not exceeding PHP 100 million (about USD 1.9 million) and can also include co-operatives in which women are the majority of members. Applications from start-ups are considered on a case-by-case basis.

The minimum loan amount of PHP 300 000 (about USD 6 000) can cover up to 90% of the project costs and can be used for working capital, financing of confirmed purchase orders and letters of credit, acquisition of fixed assets or the purchase of a franchise. The loan duration can extend for up to a 7-year term.

Source: "Inclusive Lending for Aspiring Women (ILAW) Entrepreneurs Program Business Loan" brochure at: https://www.dbp.ph/wp-content/uploads/2018/10/ilaw.pdf/

Efforts of Vietnamese banks to adopt approaches specific to women-owned SMEs and design tailored loan packages is evident. For example, the VPBank, with support from the IFC, was one of the first in the country to do so. Within the first year of launching the programme, the VPBank lent USD 600 million to 2 000 women entrepreneurs, accounting for 25% of its SME client roster.[24] The IFC expects to provide an additional USD 150 million in loans to Vietnamese banks for financing women-owned SMEs by 2020, and another USD 200 million by 2025.[25] This continued support from the IFC to encourage private banks in Viet Nam to be more inclusive of women entrepreneurs – e.g. through the IFC Gender Finance Programme and the World Bank-IFC Women Entrepreneurs Finance Initiative/We-Fi[26] – could make a difference in improving women's access to finance and changing the lending behaviour of banks. To make these international efforts more sustainable, Viet Nam's public financial institutions, such as the Viet Nam Development Bank (VDB), could design similar loan products that specifically target women-owned SMEs.

Access to markets and business networks

On the matter of accessing markets and business networks, women entrepreneurs in Viet Nam prioritised assistance on trade promotion, value chain integration, market information, and referrals to local and foreign associations (VWEC, 2018[45]). In particular, women entrepreneurs expressed the need for a trade promotion programme developed specifically for them, which would include participation in trade fairs and product-introduction events where women entrepreneurs could meet potential buyers. To respond to this need, VIETRADE could consider designing a dedicated programme for women exporters, such as the Canadian Business Women in International Trade (BWIT) Service (Box 5.14) or the Malaysian Women Exporters Development Programme (Box 5.15).

Box 5.14. Business Women in International Trade (BWIT) Service - Canada

The Business Women in International Trade (BWIT) Service is designed to accelerate the internationalisation of export-ready and export-active woman-owned businesses by providing targeted products and services. The BWIT is part of the Canadian Trade Commissioners Service (TCS). Through the 161 cities worldwide where TCS offices are located, the key goal of the BWIT programme is to help spur the growth of women-owned businesses by linking them with international business opportunities.

Specifically, the BWIT Service organises the following activities:

- Annual women-focused trade missions and one-to-one business matching meetings where Canadian women entrepreneurs can meet with women-owned businesses in other countries or with corporations interested in buying from women.
- Offer of tailored products to assist women entrepreneurs, such as the BWIT LinkedIn Group, the BWIT newsletter, monthly email updates, and a special directory listing of women-owned businesses that facilitates contact with procurement professionals worldwide.
- Assistance to women entrepreneurs in accessing the supplier diversity programmes of major corporations that source products and services from women-owned certified businesses, both by leading women-focused trade missions to major supplier diversity events and by working closely with women’s enterprise organisations and supplier diversity certification bodies.
- Linkages to export financing opportunities, such as to the “Women in Trade Investment Programme” of Canada’s Export Development Corporation, which helps Canadian women entrepreneurs expand beyond national borders.

Source: Trade Commissioner Service website, Business Women in International Trade, https://www.tradecommissioner.gc.ca/businesswomen-femmesdaffaires/index.aspx?lang=eng/

Box 5.15. MATRADE Women Exporters Development Programme, Malaysia

MATRADE launched the Women Exporters Development Programme (WEDP) in 2005 with the aim of increasing the number of women exporters. The programme is specifically tailored for new or occasional exporters with limited exporting experience but the willingness and capacity to develop the skills to become a successful exporter.

To be eligible for the programme, the enterprise must be at least 51% equity-owned by a woman or group of women, have a woman as chief executive officer or managing director, and meet the Malaysian definition of SME. Selected women-owned SMEs must have at least three years of operation and a certain level of local market dominance, with preference given to businesses involved in technology-driven and knowledge-based industries. In addition, businesses must be export-ready (i.e. in terms of having a product or service with export potential and the capacity to cater for export demand), willing to dedicate the time and resources of two staff members in the programme, have an export market plan, and agree to participate in the compulsory training courses before engaging in any export promotional activities.

The programme provides business coaching, market immersions, networking and mentoring sessions, as well as leadership and entrepreneurial development training. Companies in the programme also receive grants that help defray the costs of participating in international trade fairs, seminars and workshops organised by MATRADE worldwide.

MATRADE issues an annual invitation for participation and selects 12 women entrepreneurs for each intake to complete the three-year cycle of the programme. Participants are entitled to select three MATRADE export promotional activities each year from a menu of international trade exhibitions, trade and investment missions, and individual business missions.

By 2017, 128 women-owned SMEs had benefited from the WEDP programme. By the same year, women exporters accounted for 14% of the 19 000 companies in the MATRADE register.

Source: Women's Exporters Development Programme (WEDP) at: http://www.matrade.gov.my/en/malaysian-exporters/services-for-exporters/exporters-development/new-exporters-development/.

Access to information and knowledge

On the matter of accessing information and knowledge, women entrepreneurs expressed a need for information on possible partners, output markets and legal consultancy services, as well as for knowledge development on corporate governance, marketing, financial management and quality management (VWEC, 2018[45]). Women entrepreneurs indicated that this knowledge could be delivered through training courses (with a strong preference for online training), counselling and mentoring, business linkages and the formation of associations and clubs of women entrepreneurs.

Conclusions and policy recommendations

This chapter has covered a large number of SME and entrepreneurship programme areas, notably access to finance, innovation, internationalisation, public procurement, workforce skills, entrepreneurship education, and women's entrepreneurship. Public support for SME finance is channelled mostly through the SME Development Fund and the Credit Guarantee Fund. However, the take-up of these programmes by SMEs and the banking system is low, calling for some adjustments in their operational arrangements. Venture capital and equity markets are moving their first steps and could be further assisted through a more conducive legal and regulatory framework and the introduction of tax incentives to encourage investments in high-potential start-ups and SMEs.

Innovation support is a common target of business support programmes, with a major focus on science and technology-driven enterprises and, increasingly, on the start-up ecosystem. By contrast, insufficient programme support is directed to building innovation capabilities at the firm level and to strengthening the capacity of SMEs to absorb external technologies. In the area of trade policy, the government has made important strides to improve the trade facilitation regime and to direct resources to export promotion activity, but more efforts are needed to train SMEs in export-related skills and online trading, including the use of e-commerce platforms.

Similar to other countries, Viet Nam's training policies have privileged labour market entrants and the unemployed, whereas the skills upgrading of current workers, especially in SMEs, has been overlooked. Viet Nam could, therefore, launch a new training and advisory programme aimed at the enhancement of workforce skills and labour productivity in SMEs. The government is also committed to making entrepreneurship a mandatory requirement in Viet Nam's universities, with significant programme activity underway. On the other hand, efforts at the elementary, secondary and vocational levels of education are at a very incipient phase and in need of capacity building and budget support.

Until recently, programme efforts to support women's entrepreneurship have been driven and funded by international donors. However, the recent project "Supporting women in starting a business in the period 2017-2025" (Project 939) has important targets and, if well-funded, could have an important impact on women's entrepreneurship. What is currently lacking, however, is an integrated national framework for women's entrepreneurship development and a mechanism for the co-ordination of support activities. The AED could play this co-ordination role and, with the co-operation and collaboration of other stakeholders, elaborate a more integrated strategy for women's entrepreneurship promotion.

Based on this analysis, the following policy recommendations are formulated to strengthen SME and entrepreneurship support programmes in Viet Nam.

Policy recommendations on SME and entrepreneurship support programmes

Debt finance

- Undertake an in-depth assessment of the SME Development Fund (SMEDF) and the Credit Guarantee Fund (GCF), inclusive of questionnaires to SMEs and partnering banks, to single out the main causes behind their low use.
- Monitor the performance of the SMEDF by collecting data on the number of loan applications (by sector of activity and purpose of the loan), the average loan size, the percentage of applications rejected and approved, the reasons for loan rejections, and the loan default rates.
- Decrease the coverage rate of the CGF from 100% to about 80% to promote risk-sharing with partnering banks, and increase the annual premium fee for the credit guarantee from 0.5% to 1-2% (of the total guaranteed loan and interest) in order to promote sustainability of the Fund.

Equity finance

- Consider introducing front- and back-end tax incentives to prompt individual investors and venture capital funds to invest in innovative start-ups and growth-oriented SMEs.
- Improve the working of the domestic junior equity market (UPCoM) by strengthening investor protection and increasing capital requirements for firms trading in this market.

SME innovation

- Complement supply-led programmes supporting R&D and technology-based enterprises with interventions, such as innovation vouchers, that aim to improve the innovation capacity of SMEs through skills upgrading and ICT adoption.
- Increase the budget to the National Agency for Technology Entrepreneurship and Commercialisation (NATEC) to work on skills upgrading in business incubators, including by developing national quality standards and putting in place a monitoring and evaluation system.

SME internationalisation

- Raise awareness among SMEs of the Viet Nam Trade Information Portal and the National Single Window to increase their usage of these trade facilitation mechanisms.
- Develop an export-readiness training programme targeting potential and novice SME exporters.
- Target SMEs in the National Productivity Development Programme of the Ministry of Science and Technology to help them meet international quality standards, thereby increasing their chances to integrate global value chains.
- Initiate a wide-scale intervention to orient SMEs in the use of e-commerce as an export trade channel.

Public procurement

- Develop a strategy to support SMEs through public procurement by setting targets for the share of public procurement contracts to be awarded to SMEs, establishing set-asides, encouraging state-owned enterprises to procure from SMEs, and developing a database to track the allocation of government contracts to SMEs.

Workforce skills upgrading

- Support more generously within-company training with a view to enhancing the average labour productivity of SME workforces; for example, by implementing a demand-driven programme aimed at the upgrading of workforce skills in SMEs.
- Facilitate the involvement of multinational enterprises in SME workforce training programmes to enable the transfer of international standards, management practices and technology, and to align with the policy target of linking local SMEs to global value chains.

Entrepreneurship education

- Establish a National Commission on Entrepreneurship and Education to develop an action plan for the integration of entrepreneurial learning across the different levels of the educational system, beginning with primary level through to university.
- Promote the use by Vietnamese universities of the ASEAN Common Core Curriculum for Entrepreneurship as a guide to develop a full entrepreneurship programme for university students.
- Encourage a cross-disciplinary approach in the delivery of entrepreneurship courses to university students by allowing non-business students to choose entrepreneurship electives, with particular emphasis on engineering, science and arts students.
- Allocate a specified percentage of entrepreneurship education budget assistance for the integration of entrepreneurship education in vocational colleges.

Women's entrepreneurship

- Establish a government focal point for women's entrepreneurship development in the Agency for Enterprise Development, with the mandate to co-ordinate SME policies targeting women-owned SMEs.
- Establish a Women's Entrepreneurship Development Expert Panel, comprised of experts from the private sector and civil society, to identify gaps in support measures for women entrepreneurs and propose solutions.
- Ensure that women-owned businesses are adequately represented in all government SME and entrepreneurship programmes, including those under the framework of the SME Support Law.
- Develop new loan products in national development banks to address the constraints faced by women-owned SMEs in access to credit.
- Design a dedicated exporter development programme for women-owned SMEs which would encompass export-readiness training, business matchmaking, opportunities to participate in international trade missions, and access to export finance solutions.

Notes

[1] The four partner commercial banks are the Commercial Bank for Foreign Trade of Viet Nam (VietcomBank), the Bank for Investment and Development of Viet Nam (BIDV), the Viet Nam Prosperity Bank (VPBank) and the Ho Chi Minh City Development Bank (HDBank).

[2] Information on the use of SMEDF comes from the Fund's internal report of 2019.

[3] As per the MPI Circular No. 13/2015/TT-BKHDT dated 28 October 2015 outlining the activity of the SMEDF.

[4] As per Decree 34/2018/ND-CP on the establishment and operation of Credit Guarantee Funds for Small and Medium Sized Enterprises.

[5] In 2018, the government increased the charter capital requirement for a local guarantee fund to VND 100 billion, to be provided from provincial budgets, which is likely to put a further strain on cash-constrained provinces (Decree No. 34/2018/ND-CP).

[6] "ADB provides $300 million loan to BIDV to support SMEs in Viet Nam", News Release, 12 December 2018, Asian Development Bank (ADB), https://www.adb.org/news/adb-provides-300-million-loan-bidv-support-smes-viet-nam/.

[7] "Fintech-driven lending to alleviate SME financing gap", *Viet Nam Investment Review*, 22 July 2019, https://www.vir.com.vn/fintech-driven-lending-to-alleviate-sme-financing-gap-69416.html/.

[8] Based on VND-USD exchange rates of May 2020.

[9] "More UPCoM firms pose market management issues", *Viet Nam News*, 22 November 2018 (https://vietnamnews.vn/economy/480565/more-upcom-firms-poses-market-management-issues.html)

[10] "Market capitalization of UPCoM exceeds VND 1 quadrillion", *Saigon Online*, 9 September 2019 (https://sggpnews.org.vn/business/market-capitalization-of-upcom-market-exceeds-vnd1-quadrillion-83468.html)

[11] For example, although the UK is clearly at a different level of capital market development, the entry threshold in the domestic junior equity market (AIM) is GBP 6 million, more than 17 times the entry level threshold in UPCoM.

[12] "Directly" implies that SMEs were the explicit target firms, whereas "indirectly" implies the programmes were open for any size of firm.

[13] Implementing Decision of the Prime Minister No. 72/2010/QD-TTg dated 15 November 2010 on National Trade Promotion Programme.

[14] Further information on the Amazon initiative is available at: "Amazon Global Selling sets up specialized team in Viet Nam", *The Saigon Times*, 18 October 2019, https://english.thesaigontimes.vn/72128/amazon-global-selling-sets-up-specialized-team-in-vietnam.html/.

[15] Decree No. 63/2014/ND-CP dated 24 June 2014 detailing a number of articles of the Law on Bidding regarding selection of contractors.

[16] SMEs in disadvantaged areas and women-owned SMEs are eligible for free tuition fees on business administration training.

[17] Between 2014 and 2018, the Viet Nam-Finland IPP had a budget of EUR 11 million to promote the development of entrepreneurship and a start-up ecosystem in Viet Nam (OECD/ERIA, 2018[5]).

[18] "Bringing entrepreneurship competition to engineering students", *Vietnam Investment Review*, 26 November 2019, https://www.vir.com.vn/bringing-entrepreneurship-competition-to-engineering-students-72050.html.

[19] Know About Business factsheet, ILO, https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_159163.pdf.

[20] A useful lesson from the results of the GET Ahead programme is that business development training tailored to the needs and experiences of women, *i.e.* in conjunction with a gendered perspective, has stronger benefits for women entrepreneurs than offering general business training through the enhancement of empowerment and confidence (Huis et al., 2019[48]).

[21] See: "Plan to implement the project 'Supporting women to start a business in the period 2017-2015' in the province of Thai Binh", 26/02/2018, https://english.thaibinh.gov.vn/Policy%20of%20Thai%20Binh/plan-to-implement-the-project-supporting-women-to-start-a-business-period-20172025-in-the-province-of-thai-binh-55.html/.

[22] Viet Nam Women's Union website, http://hoilhpn.org.vn/NewsDetail.asp?Catid=67&NewsId=31217&lang=EN/.

[23] The lack of hard collateral required by banks to support business loans is one of the major barriers to the development of women-owned SMEs in Viet Nam. Women are disadvantaged in this respect because, although the Land Use Rights Certificate (LURC) Law clearly states that both women and men have equal rights and opportunities to the access of land use and rights, women's names are most likely not included on the LURC, which is held in the man's name only (IFC, 2017[47]). Revisions to the Land Law have addressed this issue by requiring the name of both spouses on land certificates, but due to lack of information or adherence to cultural practices, certificates have rarely been changed. Consequently, if a married women entrepreneur wants to borrow money for her business, she must provide the bank with an approval from her male spouse to collateralise the loan.

[24] "Women Entrepreneurs in Vietnam Get a Fair Shot with Financing", August 2018, International Finance Corporation, https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/impact-stories/vietnam-banking-on-women-entrepreneurs.

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[26] The IFC has provided more than USD 400 million in financing to banks for relending to women-owned SMEs through the Global Finance Programme. Through the Women Entrepreneurs Finance Initiative (We-Fi), the World Bank/IFC issued a USD 100 million loan to the Orient Commercial Bank in 2019, which will make at least half of that loan amount available to women-owned or women-managed SMEs.

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6 Business linkages in Viet Nam

This chapter provides an overview of business linkages between multinational enterprises (MNEs) and local small and medium enterprises (SMEs) in Viet Nam and national policies supporting these linkages. Viet Nam has attracted a large amount of foreign direct investment (FDI); nevertheless, business linkages between MNEs and domestic firms are still relatively undeveloped. Vietnamese suppliers are mainly relegated to lower-tiers of integration in the global value chains (GVCs), specialising in low value-added parts/components or assembly functions. To capture stronger gains from GVC integration, a multi-pronged approach should be taken to increase opportunities for local sourcing of inputs and intermediate products by foreign investors, focusing in particular on: strengthening firm-level capabilities through training and innovation support; developing supplier upgrading programmes boosting the capacity of local SMEs to comply with international technical standards and codes of conduct; setting up institutions offering specialised services to supporting industries, such as testing and certification agencies; providing supply chain finance; and involving universities in building up the technical and soft skills needed in GVCs.

The state of business linkages

Viet Nam is increasingly integrated into global value chains (GVCs), but mostly in low value-added functions

As noted in Chapter 3, Viet Nam has become an export powerhouse in the last 20 years, mostly thanks to its ability to attract foreign direct investment (FDI) in manufacturing. Multinational enterprises (MNEs) indicate that economic and political stability and low labour cost are the main pull factors to invest in Viet Nam (UNIDO, 2018[1]). In addition, independent surveys about possible alternative FDI destinations in the region point to Viet Nam as the most attractive location in Asia (AmCham, 2019[2]; EIU, 2019[3]).[1]

Since 2010, Viet Nam's inward FDI stock has grown at an average yearly rate of 12.8%, reaching USD 145 billion in 2018 (Figure 6.1, Panel A). This is 10 times the FDI stock in 2000 and 2.5 times that in 2010, corresponding to almost 20% of all investments going to developing Southeast Asian countries. From 2003 to 2017, the manufacturing sector, which attracted about one-third of total FDI in Viet Nam, was the recipient of 1 101 new investment projects.[2] The main industries of attraction were apparel and textiles, food and tobacco, electronic components, and metals (44% of the investment projects). The top countries of origin were Japan, Korea, and Taiwan (335, 133, and 109 investment projects, respectively).

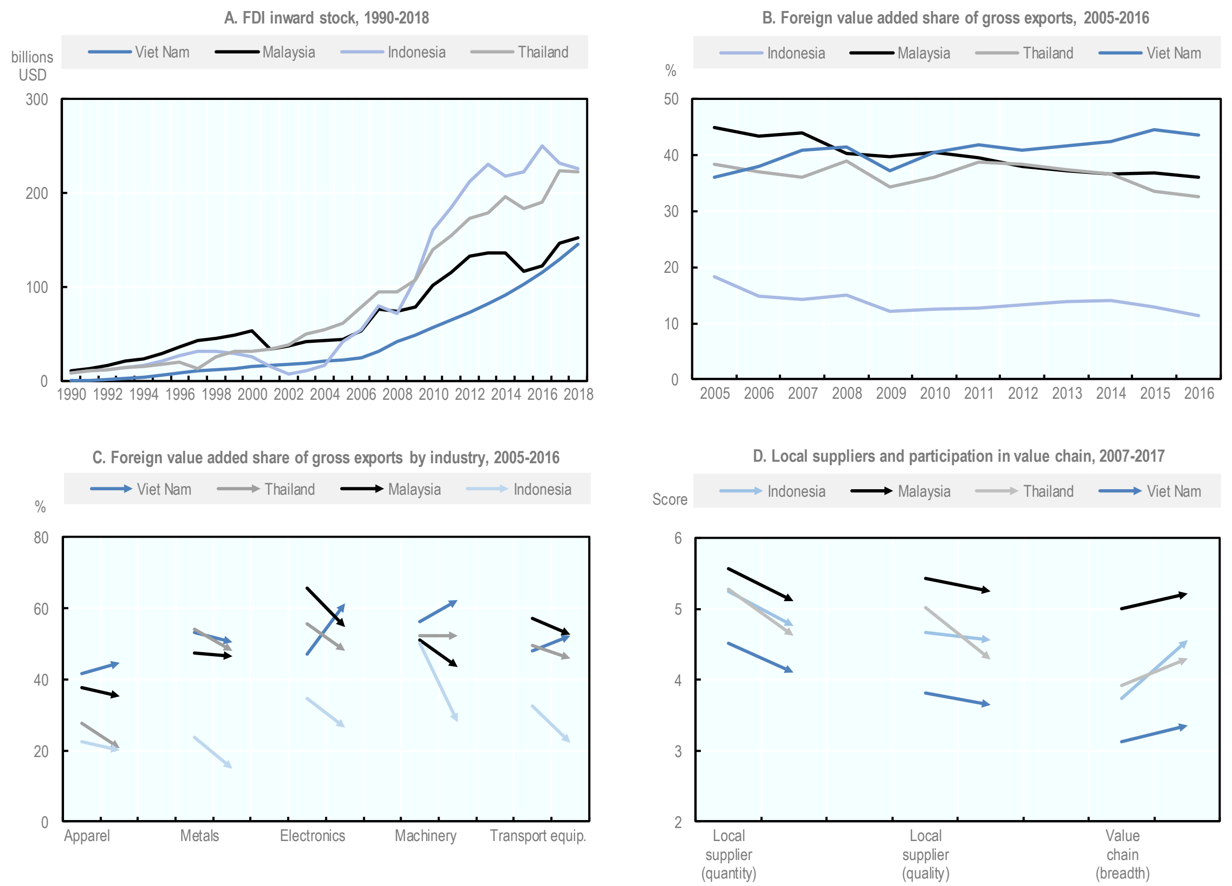
FDI has favoured export-oriented growth, transforming Viet Nam into a manufacturing-based and GVC-integrated economy. Nevertheless, FDI-driven exports include large import contents and low domestic value added with limited linkages between the MNEs based in the country and domestic companies (Hollweg, Smith and Taglioni, 2017[4]). A survey of Japanese-affiliated firms operating in Asia indicated that the local procurement of raw materials and parts in their local production activities in Viet Nam was only 36.3%, compared with 66.3% in China, 57.2% in Thailand, and 42% in Indonesia (JETRO, 2019, p. 45[5]). World Bank's enterprise surveys also find that the average share of local sourcing reported by foreign MNEs in Viet Nam is lower than the one reported in Thailand, Indonesia and Malaysia, albeit still significant at 45% (OECD/UNIDO, 2019[6]).

The experience of Viet Nam, similarly to other countries that have been major FDI recipients, shows that strong business linkages between MNEs and local SMEs are determined by the characteristics of foreign investors, such as the length of their presence in the country, the motivation underpinning their investments, and their global sourcing strategies; the characteristics of the domestic firms, such as their technological capacity, their human resource skills and their scale; and the characteristics of the institutional framework of the host country, such as the state of development of the domestic innovation system (Farole and Winkler, 2014[7]).

Backward participation in GVC is much more common than forward participation

Viet Nam's GVC integration is predominantly via backward participation, measured by the foreign value added share of gross exports (FVA)[3]. This means that Viet Nam specialises within GVCs through the import of intermediate parts and components that are domestically assembled and then exported as final products. Indeed, Viet Nam's FVA showed a general increase from 36% in 2005 to 44% in 2016, compared with declining FVA shares in Indonesia, Malaysia and Thailand (Figure 6.1, Panel B). This increase was consistent across the main manufacturing industries attracting a large share of FDI, except for metal products (Figure 6.1, Panel C). This also implies that the domestic value-added share of total exports (DVA) has decreased over time in Viet Nam, and it is much lower than in Indonesia, Malaysia and Thailand.[4] This is especially true in the apparel industry, where Viet Nam's DVA is 55% compared with 80% in Indonesia and 75% in Malaysia and Thailand.

Figure 6.1. Features of FDI and supplier relationships in Viet Nam



Note: Panel D. Scores from World Economic Forum (WEF) Executive Opinion Surveys on questions “in your country, how numerous are local suppliers” and “how do you assess the quality of local suppliers” [scale of 1 (low rating) to 7 (high rating)]. Scores for value chain breadth in response to question “how broad is companies’ presence in the value chain” [scale of 1 (narrow – primarily involved in individual steps of the value chain, e.g. resource extraction, production) to 7 (broad – present across the entire value chain, e.g. production, distribution, design, marketing, etc.)] (WEF, 2017[52]).
Sources: Panel A. UNCTADSTAT database; Panels B and C. OECD-WTO’s Trade in Value Added (TIVA) database; Panel D. World Economic Forum (WEF) Global Competitiveness Index Dataset.

StatLink https://doi.org/10.1787/888934224771

Vietnamese local suppliers are generally engaged in low value-added activities, either producing non-core intermediate components or involved in assembling components. Most domestic suppliers are indirectly linked to the GVCs, often as third-tier suppliers, with no direct connections with the lead foreign firms and few connections with first-tier suppliers, which have the largest potential impact on domestic productivity and technology (World Bank, 2017[9]). This is reflected in the relatively weaker perceptions of the capacity and quality of local suppliers in Viet Nam compared to other ASEAN countries (WEF, 2017[8])[5]. On “local supplier quality”, based on an executive opinion survey of the World Economic Forum (WEF), Viet Nam ranked 116th out of 137 countries, trailing far behind Malaysia (23rd), Indonesia (54th), the Philippines (73rd), and Thailand (74th) (WEF, 2017[8]). In addition, the value chain breadth (degree of involvement of local companies in the value chain) is narrower in Viet Nam (score of 3.3 out of 7) than in Malaysia (5.2), Indonesia (4.5) and Thailand (4.3) (Figure 6.1, Panel D).

Domestic firms more intensely involved in GVCs are very different from other firms in Viet Nam. They tend to be larger and more diversified in terms of products than companies with no connections with foreign investors (UNIDO, 2018[1]); are engaged in more product and process innovation activities, often developed in co-operation with other firms or institutions, and spend more on R&D; use more information and communication technologies (ICTs) to communicate with their clients; and are more likely to hold international certifications and invest in formal training of their workers than non-suppliers (World Bank, 2017[9]). In addition, they are also more likely to be a member of business associations, which increases the probability of becoming a supplier of foreign-owned firms, especially in the food, apparel, and wood industries (Chuc and Thai, 2017[10]). The challenge for Viet Nam is the short supply of domestic enterprises sharing these characteristics.

The nature of GVC participation varies by industry

The nature of GVC participation in Viet Nam (e.g. backward or forward linkages and regional or global value chains) varies a lot across industries (UNIDO, 2018[1]). This is illustrated through the examples of GVC integration in three key industries attracting a large amount of FDI in Viet Nam: textiles and apparel, electronics, and motor vehicles.

Apparel and textiles industry: The apparel industry in Viet Nam consists of domestic producers catering mostly to the local market and foreign-owned enterprises that export. In 2018, Viet Nam was the 8th largest world exporter of textiles (USD 8.3 billion) and the 4th of apparel (USD 31.5 billion, after China, the EU and Bangladesh) (WTO, 2019[11]). This sector, dominated by foreign investors, is the second largest exporting industry after electronics. The foreign-owned firms import inputs from their global networks, as evidenced by the very low domestic value added in the sector (see Figure 6.1, Panel C) and the large share of textile imports, which corresponds to 2.6% of the world total (the 4th largest after the EU, the United States and China). Foreign investors mostly originate from China, Hong Kong, Korea and Taiwan and are mainly motivated by low labour cost and preferential access to high-income markets. FDI in apparel has generated huge opportunities for low skilled local employment and labour intensive “cut-make-trim” (CMT) processes (particularly for females), but it has also produced weak spill-overs and very limited knowledge transfer to local producers due to few backward linkages (Hollweg, 2017[12]).

Domestic firms, mainly concentrated in Ho Chi Minh City and Ha Noi, are vertically integrated and largely oriented to produce and sell apparel in the local market. Most of this production is not of export quality and satisfies around 15% of domestic demand (UNIDO, 2018). The few domestic export-oriented firms are partly owned by the Viet Nam National Textile and Garment Group (Vinatex) or other state-owned enterprises, with very few new private ventures emerging in the industry since 2005 (Frederick, 2017[13]).

Electronics industry: The electronics industry in Viet Nam started to develop after WTO accession in 2007 as foreign investors looked for new competitive production locations[6]. Leading electronics firms in the country include Samsung and LG, contract manufacturers such as Foxconn, and platform leaders such as Intel and Microsoft.

With an investment of more than USD 17 billion, eight factories and one R&D centre, Samsung is the largest foreign investor in Viet Nam, employing 160 000 workers (largely semi-skilled high school graduates and women, who represent three-quarters of its workforce) (UNIDO, 2018[1]). Around one-third of Samsung’s worldwide phone production is assembled in Viet Nam, in particular in Thai Nguyen, North Viet Nam, where Samsung has located the largest smartphone factory in the world employing 60 000 workers.[7] Korea’s LG and Japan’s Canon have placed the largest laser printer and inkjet printer factories in the world in the Ha Noi area. Microsoft has also moved production to Viet Nam because of rising labour costs in China, making Viet Nam its second largest employment base after the United States (Sturgeon and Zylberberg, 2017[14]). In 2019, phone system devices, including smartphones, represented 20.7% of Viet Nam exports, followed by integrated circuits (8.6%), almost entirely manufactured by foreign-owned enterprises. Besides competitive wages (which have however more than doubled between 2008 and 2014), Viet Nam has the geographic advantage of being on the border with China where the existing supply chain is based, has a large population and a growing middle class (UNIDO, 2018[1]). Furthermore, foreign firms have also been attracted by tax incentives and preferential land access.

FDI has fostered local employment in the industry, generating low- and mid-skilled jobs mostly in hardware manufacturing and in the assembly of smartphones, even though workers in knowledge-intensive business services, such as software services, are slowly increasing (Sturgeon and Zylberberg, 2017[14]). In general, export-oriented foreign investors have a low localisation ratio (i.e. share of local content and value added retained locally) because domestic companies do not have the appropriate capabilities in terms of the required scale, cost, delivery and quality. As a result, local suppliers are mainly in low value-added services, such as packaging and printing, and serve predominantly as second or third-tier suppliers. Instead, the main suppliers in the electronics industry are also foreign-owned companies that have followed the lead buyer in Viet Nam to reduce logistics costs (Binh and Linh, 2013[15]).[8]

In order to help improve the technical capabilities of local producers, in 2012, Samsung set up a large R&D centre in Ha Noi (the largest in Asia) and supported the Ha Noi University of Science and Technology with grants and scholarships to address the talent bottleneck of skilled workers. Similarly, Intel took actions to deal with the lack of technical and managerial human resources in Viet Nam by launching the Intel Study Abroad Programme, which since 2010 has sent Vietnamese students to the United States to be trained as engineers and managers.

Motor vehicle industry: Viet Nam's motor vehicle industry is composed of three main segments: 1) two-wheelers, a well-developed segment with a strong local supplier base and about 90% of domestic value added, 2) passenger cars, mainly consisting of assembly plants and targeting the domestic market, but with a low rate of localisation, and 3) buses and trucks with a higher local content (Arenas, 2017[16]).

The two-wheeler industry focuses on the production of motorcycles and motorcycle parts. The domestic industry started in the mid-1990s under market protection. At the beginning of the 2000s, Chinese companies began to export low-cost kit components of slightly modified versions of Japanese models, which were assembled by Vietnamese firms. In doing so, Chinese companies rapidly took a large part of the market. In reaction to this, the Vietnamese government introduced quality and environmental standards and enforced stricter local content rules and import tariffs with the aim to develop a stronger local supplier base. However, when Viet Nam joined the WTO, tariff barriers had to be dismantled, which led Japanese producers to invest in this industry to satisfy the booming domestic market. Driven by Japanese manufacturers, domestic suppliers in the two-wheeler industry were able to meet higher quality standards, although they specialised only in a limited number of activities (Fujita, 2013[17]).

In the passenger car subsector, several Original Equipment Manufacturer (OEM) brands, such as Honda, Hyundai, Toyota, and Mercedes Benz, invested in Viet Nam to perform assembly operations nearly two decades ago, mainly to avoid high import tariffs. The small size of the domestic market (about 300 000 cars per year) makes it difficult for Viet Nam to compete in this sector, given that most plants do not reach minimum economies of scale and have higher production costs than in neighbouring countries (Arenas, 2017[18]). The OEMs source locally only low value-added components, such as seats, tires and batteries, and the simplest phases of production, such as assembly, painting and welding. The local manufacturers of auto parts number about 200-300 firms, most of which are SMEs with low production capacity and poor technological endowment (Arenas, 2017[16]). More sophisticated parts, such as gear boxes and engines, are imported from branches of the parent companies or from foreign suppliers. The result is low local content in the passenger cars sector (under 20%), much less than in other neighbouring countries, such as Thailand (45%), which is the motor industry powerhouse of the ASEAN region (Arenas, 2017[16]).

Local content in the bus and truck subsector is higher than in the production of passenger cars. Seventy percent of electrical components and all frames and trunks are domestically produced. The production of commercial vehicles is much less susceptible to economies of scale than the passenger car subsector, so Viet Nam has been able to develop domestic capabilities in the local manufacturing of relevant parts and components (Arenas, 2017[18]).

Current constraints to the development of business linkages

There are both firm-level and macro-level constraints to deeper GVC integration of Vietnamese SMEs

Growing FDI has brought many benefits to Viet Nam: jobs for a young and growing population, opportunities for women to join the formal labour force, and a decrease in agricultural employment (from 65% in 2000 to 39% in 2018). However, linkages between MNEs and local companies are not automatic. The low propensity of MNEs in Viet Nam to source local inputs is a long-standing phenomenon. Recent statistics show that MNEs in Viet Nam still import large amounts of parts and components and when they buy locally tend to develop linkages with foreign rather than with domestic suppliers (OECD/UNIDO, 2019[6]). If domestic enterprises lack the prerequisites to meet international standards on product quality, cost, reliability and time delivery, MNEs will often ask their established international suppliers to relocate.

A critical barrier to deeper GVC integration is Viet Nam's large number of small and informal companies which feature average low productivity (World Bank/MPI, 2016[19]). Lack of economies of scale also explains why the cost of manufacturing intermediate inputs in Viet Nam is often higher than the cost of imported inputs, especially in the automotive industry (APEC, 2017[20]). Many firms also face language barriers in communicating with MNEs, a problem particularly stringent with Japanese companies which prefer establishing supplier relationships with Japanese-speaking firms to minimise miscommunication (APEC, 2017[20]). Finally, only a limited number of domestic firms are qualified for higher international standard certifications, such as ISO 14 000, occupational safety, health management, and corporate social responsibility (World Bank, 2017[9]).[9]

In addition to these firm-level constraints, there are also barriers in the business environment that prevent a more qualified involvement of domestic companies in GVCs. Foreign-owned firms express concerns especially about the inadequate level of education of the workforce and the complex regulatory environment (World Bank, 2017[9]; UNIDO, 2018[1]). The weak enforcement of the Intellectual Property Rights (IPR) Law is also an issue for MNEs, particularly in high-technology sectors (World Bank, 2017[9]). Another problem consists in finding reliable information about domestic suppliers and their capacity, which results in high search costs for MNEs and weakens linkage opportunities.

Logistics is also an issue, notably the poor efficiency in customs clearance, weak infrastructure quality and limited availability of competent service providers (Shepherd, 2017[21]).The service sector in Viet Nam is still in its infancy, with a contribution to GDP of 41.6%, slightly lower than in Indonesia (44.2%) but much lower than in Malaysia (54.2%) and Thailand (58.6%).[10] Domestic services contribute very little as inputs into other sectors' exports, pointing to the lack of a modern domestic service sector that could tap into GVC downstream activities (Hollweg, 2017[12]).

Productivity spill-overs from GVC participation have been limited

Due to these constraints, Viet Nam has not fully benefited from the potential technology and productivity spill-overs from existing FDI. Most imported inputs are sourced at short distances from other emerging or developing countries, with the exception of Japan and Korea (UNIDO, 2018[1]). Technological and knowledge spill-overs are also weakened by the low absorptive capacity of domestic companies. Furthermore, when positive spill-overs happen, they are geographically concentrated in the regions where the FDI is located (Anwar and Nguyen, 2014[22]).

The current policy framework to support business linkages

The Programme on the Development of Supporting Industries (SI) is the main policy to build FDI-SME linkages

The Vietnamese Government has adopted the term “supporting industry” (SI) to define all industries manufacturing materials, accessories, components and spare parts used for assembling finished goods.[11] The term was employed first by the Ministry of International Trade and Industry in Japan in 1985 and has been widely used in Asia ever since. The concept was initially introduced in Viet Nam in 2003 by the Viet Nam-Japan Initiative, which aimed to strengthen Viet Nam’s economic competitiveness through the promotion of Japanese FDI into the country and the development of domestic “supporting industries” (Thuy, 2007[23]). Since then, Viet Nam has introduced a number of decrees and laws aimed at regulating and promoting SI.

A progressive series of regulations from 2007 started to identify the supporting industry sectors – textiles and apparel, leather and footwear, electronics, automotive, metal products and high-tech industries (manufacture of special-use materials and supporting equipment, software and services for hi-tech industries) – and to clarify the various SI incentives. The Ministry of Industry and Trade (MOIT) was designated as the main co-ordinator for SI development across ministries.

Decree No. 111/2015/ND-CP confirmed the six target supporting industries, provided a list of prioritised SI products for each industry eligible for assistance policies and incentives (which can be updated periodically), detailed the different policy instruments, and confirmed the key co-ordinating role of the MOIT, as well as the responsibilities of other ministries.

As of 2020, the Programme on the Development of Supporting Industry for 2016-2025 (Decision 68/2017) was the main SI policy. The objectives of the programme are to address the lack of competitive local suppliers by supporting and connecting domestic enterprises to foreign customers in the selected SI sectors and to further attract foreign investment in these sectors.

The total budget for the first phase of implementation (2016-2020) was around USD 43 million, 86% from the state budget and the remaining from other sources; in the second phase (2021-2025), the estimated budget is an additional USD 38 million.[12] Among the instruments included in the Programme are supply-side measures aimed at enhancing the capacity of firms to become more competitive and demand-side measures designed to widen the customer base of the supporting industry firms. Box 6.1 highlights the main measures included in the Programme.

Box 6.1. Viet Nam's Programme on Development of Supporting Industry during 2016-2025 - Highlights

Support for R&D and technology transfer

This is the main area of intervention, funded with 55% of the total budget, and includes two main activities:

- Introduction and dissemination of manufacturing technologies: firms that engage in R&D related to SI products are eligible for funding up to 50% of investment costs and can receive land, given or leased out by the State, to build R&D facilities.
- Development and adoption of standards on raw materials, components and spare parts in conformity with international requirements: projects benefiting SIs and using over 85% of raw materials from domestic sources to manufacture SI industrial products are eligible for partial funding up to 75% of the total project costs.

Human resource development

- SI firms can obtain funding for training activities to meet the international standard requirements of SI products.
- Training institutions, including universities and research institutes, are encouraged to develop training programmes to raise knowledge and skills of managers and technicians in SIs.

Fiscal and financial incentives

- Tax incentives and import duty exemptions are offered to SI firms.
- Short-term loans to finance SI production projects are offered at an interest rate not exceeding the maximum rate set by the State Bank of Viet Nam. SMEs manufacturing SI products may receive loans for up to 70% of their investments, providing they are able to contribute 30% of equity to the project.

Demand side measures

- Partial funding for participation in trade fairs and exhibitions, organisation of forums between Vietnamese SI enterprises and domestic and foreign firms, as well as other business matching activities.
- Provision of consultancy support for enterprises investing in SIs.
- Build-up of a databases on the market for SI products and the SI enterprises with the capacity to deliver products to international buyers.
- Establishment of Supporting Industry Enterprises Development Centres (SIDECs) to assist SI enterprises in R&D and technology transfer, including through testing facilities, and to deploy training and trade promotion activities as outlined above.

Programme targets

Clear targets for each area of intervention are identified in the SI support programme, indicating the number of expected beneficiaries. For instance, 1 000 Vietnamese companies were projected to participate in Phase I of the programme, of which 130 would become direct suppliers of enterprises manufacturing or assembling complete products, 2 000 enterprises would receive consultancy and training in meeting international requirements, and 500 enterprises would be supported in other training activities. The second phase of the Programme in 2021-2025 will take place pending a review of the results of the first phase.

Sources: Decree No. 111/2015/ND-CP on Developing Supporting Industry, 3 November 2015; https://thuvienphapluat.vn/van-ban/Doanh-nghiep/Decree-of-Government-No-111-2015-ND-CP-development-of-ancillary-industry-300647.aspx; Prime Minister Decision No. 68/QD-TTg approving the Programme on development of supporting industries during 2016-2025, 18 January 2017, https://vanbanphapluat.co/decision-68-qd-ttg-2017-program-on-development-of-supporting-industries-during-2016-2025

A number of improvements could be made to the SI development programme

While the very existence of a programme on SI indicates a high level of commitment by the government to attract FDI and build supplier capacity in the selected sectors and products, a number of improvements could be made to the existing policy framework. An initial and important observation is the limited availability of resources to implement a vast and ambitious array of measures. The definition of eligible SI enterprises and products is also problematic. In general, the simplification of procedures for being certified as a SI firm has been successful, but there are still rigidities in the definition of a "new investment" or identification of the sector of specialisation (APEC, 2017[20]).

Furthermore, although a list of eligible SI products is clearly defined in the Programme, a detailed list of parts and components could place first movers in new products or materials at a disadvantage in meeting the requirements for programme support. In other words, gaining approval for the inclusion of "unlisted components" for programme support could be a constraint for more innovative companies and suppliers operating in industries subject to rapid changes, given that the updating of the directory of eligible products would require time.[13]

A further concern is the absence of services in the list of eligible SI products. This reflects the general perception about services in Viet Nam, which are not yet considered a potential key area of value addition in GVC domestic participation (APEC, 2017[20]; Hollweg, Smith and Taglioni, 2017[4]). Services, such as telecommunications, information technology (IT), logistics and transport services could be included in the list of supporting industries. In manufacturing industries, in particular electronics and automotive, post-production services are increasingly generating high value added within GVCs, based on the increasing availability of data from the embedding of sensors and semiconductors in manufactured products. If Viet Nam were to develop stronger ICT skills, this could open up GVC opportunities in IT-related services, such as design services, software development, programming and business and professional services (see Box 6.2).

Box 6.2. ICT services in Viet Nam

According to the Viet Nam Software and IT Services Association (VINASA), the Vietnamese IT industry has seen a steady growth in the past few years. The industry reached revenues of more than USD 70 billion in 2017, creating over 780 000 jobs. The hardware industry contributed more than USD 60 billion, accounting for about 86% of total revenues, while about USD 10 billion stemmed from the software industry, a steep rise from the USD 2.7 billion reported for 2013 (Sturgeon and Zylberberg, 2017[14]). The growth has been driven by cost-competitive wages relative to China and India. Contrary to the hardware manufacturing industry, which is dominated by MNEs, the IT services sector is characterised by both foreign and domestic companies of different sizes.

According to Sturgeon and Zylberberg (2017[14]) there are four types of IT services firms in Viet Nam: 1) a few medium-to-large locally-owned firms selling customised solutions to MNEs; 2) many locally-owned software development SMEs producing for the export market; 3) a number of IT services and system integration MNEs focused on the local market whose main clients are other MNEs operating in the country; and 4) a few MNEs providing software development and ICT-enabled services for export, often to parent companies or external clients.

The main challenges facing the ICT services industry in Viet Nam are the lack of a high-skilled workforce, funding, lack of scale, and slow regulatory reforms. The Vietnamese Government has established a number of funds at national and provincial/city levels to encourage entrepreneurship in the ICT services industry. In addition, there are programmes to provide loans, technical training and business mentoring. Going forward, a priority for the government would be to increase investments in training and education to build a more skilled labour force.

Source: Sturgeon and Zylberberg (2017[14]), "Viet Nam's evolving role in ICT global value chains", in Hollweg et al. (eds), *Viet Nam at a Crossroads: Engaging in the Next Generation of Global Value Chains,* World Bank: 133-157

In some cases, the exact nature of the activities covered by the Programme and the mechanisms for access also need further clarification. For example, the kind of training supported as well as the type of expenditures covered in the area of human resource development are not well defined. In this area, support measures should be more selective and tailored to the particular capacity-building needs of individual enterprises. For example, Malaysia uses the SME Competitiveness Rating for Enhancement (SCORE) system, a diagnostic tool to assess SME capabilities and performance, whose rating eventually informs the provision of tailored assistance for domestic SMEs (see 6.3). In adopting such a diagnostic tool in Viet Nam, vouchers could be used to send employees to training courses and tax rebates could be offered to SMEs going through the process of acquiring international standard certifications.

Box 6.3. SME Competitiveness Rating for Enhancement (SCORE) system, Malaysia

Description of the approach

In 2007, Malaysia introduced the SME Competitiveness Rating for Enhancement (SCORE), a diagnostic tool used to rate and enhance the competitiveness of SMEs based on their performance and capabilities. SCORE is used as a tool for: 1) acquiring baseline data on SMEs; 2) evaluating and tracking SMEs' capabilities and performance; 3) facilitating linkages between SMEs and foreign and domestic buyers; 4) linking export-ready SMEs to the National Trade Promotion Agency (MATRADE), and 5) ensuring better funding access.

SMEs assess themselves on seven parameters: business performance, financial capability, management capability, production capacity (including level of automation), technical and human resource capability, quality systems and certifications, and innovation. Results of the self-assessment are rated on a scale of 0 to 5 stars and SMEs are offered tailored assistance depending on their score.

Table 6.1. The rating system of SCORE Malaysia

Rating	Assessment	Assistance given
0-2 stars	Very basic, manual or semi-automated processes	Integrated hand-holding assistance
3 stars	Able to implement a quality system, undertakes product and process improvements, ready for export compliance certification, registered IP	Recommend measures for improvement
4 stars	High level of automation, invests in product/process improvements, most likely exporting, with certification for export	Link with large enterprises/MNEs/MATRADE
5 stars	Good branding/packaging, currently exporting with compliance to export requirements	

Source: SME Corporation Malaysia (2018[24]), "Compendium on Methodologies for SME Internationalisation - Malaysia's contribution".

The companies can request a verified assessment by an auditor of SME Corp. Malaysia, which is in charge of the SCORE programme. The auditor provides recommendations for improvement and indications about the type of assistance needed. SME Corp. collaborates with various public and private bodies that have the potential to assist and support SMEs in building their capacity and capabilities.

Factors of success

The SCORE tool allows the identification of support services that are better matched to the needs of individual businesses. For instance, SMEs with a 3-star rating or below can receive support for improving their capacities, while 4- and 5-star companies are supported in getting involved in supply chains.

Obstacles and responses

A challenge has been to train auditors able to support SMEs in completing the online SCORE assessment tool and to undertake the direct assessment of those companies asking for it. The solution was to organise a specific training programme in the SCORE methodology, including both online assistance and site visits for direct assessment.

Relevance to Viet Nam

An SME diagnostic tool could allow the Supporting Industry Enterprise Development Centres (SIDECs) to assess the strengths and weaknesses of SME clients in the Programme for Supporting Industries and tailor the interventions according to the specific needs and potentialities.

Sources: SME Corp. Malaysia, SME Competitiveness Rating for Enhancement (SCORE), http://www.score.gov.my/index.php/about-us-score/; SME Corporation Malaysia (2018[24]), "Compendium on Methodologies for SME Internationalisation - Malaysia's contribution", https://apecmsmemarketplace.com/sites/default/files/doc/18_smewg47_010.pdf/

Finally, the Viet Nam Association for Supporting Industries (VASI) publishes an annual directory (hard copy) with detailed information on well-established Vietnamese manufacturing enterprises that have successfully become contractors of MNEs in Viet Nam, but focuses only on three sectors: mechanical, electronics and plastics and rubbers. Thus, the directory falls short of being a comprehensive database of all SI enterprises searchable online by MNEs seeking qualified local suppliers. The database of SI enterprises could be strengthened by providing online access to up-to-date information about local suppliers across all SI industries. Moreover, the database could incorporate information on the "reputation" of supplier companies, based on data collected with the involvement of lead firms, which could allow suppliers to earn the status of "verified" or "trustworthy", based on their quality and reliability over time (World Bank, 2017[9]). Approaches to improving a supplier database are highlighted in Box 6.4.

Box 6.4. Improving a database on potential suppliers: public and private examples

The case of Invest North Macedonia

Invest North Macedonia, a national investment promotion agency, has created a database of suppliers in the automotive sector, including data about the listed companies, that enables the search for potential suppliers by several criteria, such as region, products, industry and tier (World Bank, 2017[25]). The database is user-friendly, accessible online to potential investors and available in Macedonian and English. The database contains basic information about companies, such as name, address, main products and webpage link. Non-mandatory information includes the number of employees, turnover, national and international certifications, and the supply chain position (1st, 2nd or 3rd tier). The database is developed in such a way that companies can update their own data and keep it current. Moreover, the database can interface with other existing databases, can be extended to other industries, and can integrate any future information required by MNEs.

Implementing a rating system for verification as a competent and reliable supplier - the case of Alibaba

An interesting additional information feature in a supplier database could come from the introduction of a rating system for "quality and reliability". For example, Alibaba's business-to-business web portal uses a rating system (from 0 to 10) based on how suppliers fulfil online orders; attaining a high rating helps suppliers gain the attention of more buyers (World Bank, 2017[25]). Furthermore, suppliers can opt for a fee-based "Gold Supplier" membership, based on a verification of their supplier capabilities, e.g. human resources, certifications, export capacity, production process management, and R&D abilities. "Gold suppliers" passing the assessment receive the label of "Assessed Supplier". Alibaba also has an exclusive channel for selecting export-oriented providers on which only suppliers with actual and regularly verified export capabilities are admitted

There could be better co-ordination between the Programme for the Development of Supporting Industries and other business linkages programmes

An important area for improvement is to strengthen the co-ordination of the public and private institutions involved in policies and programmes supporting business linkages. In addition to the Programme for the Development of Supporting Industries implemented by the MOIT, there are in fact other initiatives targeting business linkages. The Ministry of Planning and Investment (MPI) is the focal Ministry to implement the national programme on value chains.[14] The Centres for Assisting SMEs (TACs), which operate under the MPI, also offer services to promote business linkages in collaboration with Korean and Japanese advisors.[15] The Ministry of Agriculture implements GVC policies in agriculture, and provincial authorities implement support projects on potential value chains in their locality, although most have difficulty in identifying the appropriate value chains and qualifying SMEs at the local level. Furthermore, the recent

SME Support Law (Law No. 04/2017) prioritises "SMEs participating in value chains" as one of the strategic segments to be supported through targeted training, consultancy, and preferential access to credit (interest rate subsidies) and premises. International donors are also active in this field, for example, the USAID-MPI Linkages for SMEs (LinkSME) Project 2018-2023 is an additional (USD 22.1 million) initiative to support linkages between SMEs and MNEs.[16]

If a large number of agencies are involved in implementing support programmes, and co-ordination across institutions is weak, the result is likely to be the fragmentation of policy initiatives, overlapping functions, and lack of cohesion in policy implementation. Given the limited resources available, better co-ordination and specialisation of the different institutions promoting business linkages and GVC participation could lead to more efficient and effective services. This could imply the need for a national co-ordination body or at least a mechanism with responsibility for an integrated approach to targeting SMEs with supplier development support. The experience of Costa Rica in establishing a national supplier development office is offered as a useful example for Viet Nam (Box 6.5).

Box 6.5. The PROVEE Programme in Costa Rica

Description of the approach

Costa Rica's experience with programmes to promote business linkages provides an example of trial and error policy development. During the 1990s, several attempts to support business linkages failed due to competition among programmes and lack of co-ordination. In 2002, the Government set up Costa Rica (CR) PROVEE, a national supplier development office, to increase linkages between Costa Rican SMEs and multinational companies operating in the country. The activities co-ordinated by PROVEE include:

- Fiscal incentives for SMEs that supply to exporting firms;
- Access to finance to facilitate investments in technology;
- Awareness of the exporting firms about the benefits of domestic investment linkages;
- Programmes to connect qualified SMEs with exporting firms;
- Improvements in the organisational capacities of local suppliers;

Success factors

Costa Rica has a coherent institutional framework to promote business linkages. An empirical analysis has shown that PROVEE had a positive significant impact on real wages and the exporting probability of firms supported by some of the initiatives promoted under the umbrella of PROVEE (Monge-González and Rodríguez-Álvarez, 2013[26]).

Obstacles

The magnitude of the Programme remains limited relative to the size of the country. According to data provided by the Ministry of Finance, from 2001 to 2011, a total of 9 654 local companies supplied different types of goods to MNEs operating in special economic zones, while only 403 firms were involved at some point with PROVEE (4% of all local suppliers of MNEs).

Relevance to Viet Nam

PROVEE represents a good example for Viet Nam of how the co-ordination of different GVC activities can positively impact business linkages and the performance of domestic suppliers. However, it also points to the need of providing adequate funding in order to produce a significant impact at the national level.

Sources of additional information

Monge-González and Rodríguez-Álvarez (2013[26]), *Impact evaluation of innovation and linkage development programs in Costa Rica: The cases of Propyme and CR Provee*, Inter-American Development Bank.

OECD (2013[2]) *OECD Investment Policy Reviews: Costa Rica 2013*, OECD Investment Policy Reviews, OECD Publishing, Paris, https://doi.org/10.1787/9789264203952-en.

It is also important to co-ordinate with the private sector in the design and implementation of the supporting industry programmes. In Viet Nam, the involvement of stakeholders during the drafting of regulations is an obligation by law, and public consultations are frequently held with various business associations. However, the private sector could also be more involved in the process of capability building of domestic suppliers and in creating a transparent system for sharing information about suppliers' skills. This could also take into consideration linkages between first-tier and lower-tier suppliers, which could create significant space for knowledge and technology transfer. Based on an experience in Thailand, the main channels for this could be: 1) technical training visits, 2) organisation of seminars at first-tier plants, and 3) provision of manuals for lower-tier suppliers (Punyasavatsut, 2008[28]).

Monitoring and evaluation of the SI development programme should be introduced

Monitoring and evaluation of business linkages programmes is another area for attention. In particular, while the Programme for Supporting Industries states clear outcomes in terms of expected recipients and improvements in their performance, it does not have a monitoring and evaluation plan. Monitoring and evaluation plans are ideally established at the onset of the programme, indicating clear objectives and indicators. The evaluation exercise can take place immediately after the end of the programme or later to focus on longer-term effects and should ideally compare the treatment group of assisted enterprises with a control group of non-assisted enterprises.

A limited number of indicators, easy to measure and to collect, should be defined. Some possible indicators would include (World Bank, 2017[25]):

- *Inputs and outputs*: public and private expenditures, number of companies involved, number of projects, number of hours in consultancy time, number of training hours;
- *Suppliers' outcomes*: increased sales, increased productivity, increased quality, new products, new jobs, number of companies having acquired the approved supplier status, national and international standards certifications, employee qualifications obtained;
- *Foreign investors' outcomes*: lower costs, increased local content.

It is useful to complement quantitative information with regular qualitative feedback from the MNEs and suppliers involved in the programmes. Another issue to consider is the frequency of data collection and whether to indicate mandatory reporting for companies receiving assistance.

The role of the business environment for business linkages

Business linkages will benefit from the improvement of certain business environment conditions

Business linkages between domestic companies and foreign investors would also benefit from the strengthening of certain aspects of the business environment (see also chapter 3). These relate primarily to institutional and physical connectivity, fiscal and financial incentives, the innovation system, and social responsibility and environmental codes of conduct.

Better institutional and physical connectivity will support business linkages

Soft and hard connectivity are key drivers of international competitiveness (Hollweg, 2017[12]; Shepherd, 2017[21]). In terms of institutional connectivity, there is a need to further streamline the regulatory environment, notably contract enforcement, which is positively associated with the local provision of inputs (UNIDO, 2018[1]), and to make border procedures more transparent and predictable. Viet Nam has started to implement e-customs procedures and a National Single Window to facilitate trade (see Chapter 5), which are important trade facilitation efforts. In this context, Viet Nam should continue with full integration of electronic procedures in the trade facilitation processes. Logistical support services, such as storage, warehousing and cargo handling, are also an important area in need of improvement.

In terms of physical connectivity, investments are necessary to upgrade the transport system, including ports, airports, roads and rail links. This includes establishing corridors among the major poles and trade gateways and developing a mobility strategy within the main economic centres (Hollweg, Smith and Taglioni, 2017[4]). Investment in physical connectivity is a key element for the development of a mobility value chain as described in Box 6.6, which could lead to increased opportunities for Viet Nam to move beyond a narrow focus on traditional motor vehicle GVCs.

Box 6.6. Developing a mobility value chain in Viet Nam

Due to rising income per capita, Viet Nam has seen rapid motorisation with registered motorcycles increasing from 1.2 million in 1990 to over 50 million, and is now on the verge of reaching the threshold after which countries see a rapid increase in car ownership. The dramatic diffusion of motorcycles has generated negative externalities in terms of pollution and traffic congestion in the main urban centres.

Viet Nam has the opportunity to switch from a narrow focus on the traditional motor vehicle GVCs to a broader mobility value chain, which should be multimodal and networked (Arenas, 2017[18]). This implies investing in public transport and shared-use mobility systems.

The role of domestic manufacturers in this mobility chain can build on existing local capabilities in producing parts and components for motorcycles and commercial vehicles to specialise in the production of buses, and specifically on minibuses. This is a market segment still open in the region and in which Viet Nam has the potentiality to upgrade its GVC capacity beyond the pure assembly phase. Moreover, there is an opening space in services related to the design, management and maintenance of the mobility systems, such as software design for transport intelligent systems (i.e. bus scheduling and integrated ticketing systems).

The leading actors in the mobility value chain will be private manufacturing firms and service providers, with a key role played by the public sector in implementing regulatory changes and setting appropriate incentives to foster the adoption of the new model (e.g. congestion charges to enter designated zones in urban areas). Collaboration between the private and public actors will also be key for developing new services and opening up business opportunities for new software solutions and platforms, so will the creation of a favourable environment for start-ups in the area of mobility solutions.

Source: Arenas (2017[18]), Developing Networked Mobility in Viet Nam, in Hollweg et al. (eds), *Viet Nam at a Crossroads: Engaging in the Next Generation of Global Value Chains*, World Bank; Arenas (2017[16]), "Viet Nam in the ASEAN Motor Vehicle Industry", in Hollweg et al. (eds), *Viet Nam at a Crossroads: Engaging in the Next Generation of Global Value Chains,* World Bank.

Physical connectivity also includes ICT infrastructure. Well-developed ICT infrastructure and reliable telecom services are key for increasing economic competitiveness and for upgrading SMEs within GVCs. Viet Nam's ranking on the ICT Development Index, based on indicators of ICT access, use and skills, has been declining relative to other countries (see Chapter 3), and although slightly better than Indonesia, lags considerably behind Malaysia and Thailand.[17] This warrants further action on the part of Viet Nam to improve its performance on ICT development.

Energy and water supply are also important. The lack of chemical and waste water treatment facilities has, for example, been indicated as one of the reasons holding back investments in textile production, notably in the most polluting phases such as dyeing (Hollweg, 2017[12]). The provision of adequate infrastructure and establishment of environmental standards are therefore needed to further encourage the development and upgrading of certain value chains.

Domestic suppliers are often at a fiscal and financial disadvantage compared to foreign suppliers

In many aspects, domestic suppliers are in a less favourable position relative to foreign suppliers. For instance, domestic suppliers have to borrow in local currency, while foreign suppliers and MNEs are free to borrow in other currencies at lower interest rates. Taxation also creates an uneven playing field between foreign and local suppliers. Foreign suppliers, when established in export processing zones, are exempted from value-added tax (VAT), whereas domestic suppliers can only be reimbursed VAT after proving their products are bound to export, which in the best scenario generates delays. This tax incentive could be extended to domestic SMEs that sell more than a certain percentage of their production to firms operating in export processing zones. An additional important issue to address is the extension of measures, such as tax exemptions on import duties, beyond first-tier suppliers.

Access to working capital to finance the supply of goods to MNEs is also a constraint for Vietnamese SMEs. The availability of supply chain finance (SCF) is in short supply, with few financial institutions in Viet Nam offering modern SCF services in significant scale. SCF services not only enable suppliers to increase their working capital and scale up production, but also allow them to conduct more open-account transactions. In turn, this increases the productivity of suppliers and make them more attractive to global buyers. To help address the issue, the International Finance Corporation (IFC) is working with the government of Viet Nam to facilitate SCF in the country by improving the regulatory framework, sector infrastructure, capacities of SCF providers, and awareness of SME suppliers of the options available. [18] In the financial sector, the adoption of fintech and blockchain technology (Box 6.7) and the appropriate regulatory framework for this, is also expected to produce a significant impact on SME participation in GVCs.

Box 6.7. The role of blockchain technologies in enhancing the transparency of supply chains

Blockchain technologies are digitally distributed ledgers of records, transactions, or executed events that are shared across participating parties, such as those along a supply chain. Blockchain solutions can, therefore, allow the communication and exchange of authenticated data between each player in a supply chain without the intermediation of a trusted central organisation. Blockchain can improve supply chain transparency by allowing participants to record and verify price, date, location, quality, certification, and other relevant information in real time. Resulting benefits include:

- Increased traceability of material supply chains to meet "Responsible Business Conduct" (RBC) standards, increasingly required by MNEs;
- Lowered risk of fraud and counterfeiting;

- Improved visibility and compliance over outsourced contracts;
- Reduced paperwork and administrative costs; and
- Enhanced position as a leader in responsible manufacturing.

Administrative costs associated with quality control and compliance with RBC standards can be prohibitively high for SMEs. By reducing these costs, both for the contracting and the contracted parties, blockchain technologies have the potential to enhance linkages between MNEs and local SMEs.

Source: OECD/UNIDO (2019[6]), *Integrating Southeast Asian SMEs in Global Value Chains: Enabling Linkages with Foreign Investors*, OECD Publishing, Paris.

A stronger innovation system is instrumental to upgrading local suppliers

The sustainable integration and upgrading of domestic enterprises in GVCs requires a well-functioning national innovation system (Lema, Rabellotti and Gehl-Sampath, 2018[29]), whose development should include the following dimensions:

- The integration of foreign companies into the national innovation system, notably by involving them in R&D and skills development projects aimed at the upgrading of local suppliers. Box 6.8 provides a programme example from Chile, which aimed to strengthen business linkages between domestic suppliers and foreign investors through the offer of incentives to innovation on both sides.
- The establishment of specialised institutions and service providers (e.g. testing and certification agencies) offering support to domestic firms in acquiring and adapting new technologies, complying with international standards, and accessing technical and managerial training. Malaysia's measurement and testing centres are an example (Box 6.9).
- The engagement of universities and vocational training institutes to deliver education programmes in line with the skills and competencies required by foreign investors. Language skills should also be improved, especially in the languages of the main foreign investors and key providers of technology (e.g. English, German, Japanese and Korean).
- A financial system geared towards the provision of investment credit, notably for investments in the machinery and technologically-oriented projects needed to establish long-term linkages with MNEs. This should include funding for intangible assets and access to entrepreneurial development services. Moreover, special credit facilities and advance and prompt payment mechanisms could be introduced to support domestic SMEs involved in business linkages that face cash-flow problems.
- The strengthening of intellectual property rights (IPRs) is key both for attracting R&D foreign investments and for protecting domestic innovators, an area where there is still large room for improvement in Viet Nam (see chapter 3 for more details).

Box 6.8. The World Class Suppliers Programme in Chile

Description of the approach

The World Class Suppliers Programme is an important policy initiative started in 2009 in the mining industry in Chile. It is an example of a public-private partnership between BHP Billiton, a multinational enterprise with copper mining operations in Northern Chile, and *Corporación Nacional del Cobre de Chile* (CODELCO), the largest (state-owned) mining company in the country. The programme aimed to facilitate the development of innovative solutions to the operational and environmental challenges faced by BHP in its Chilean operations, and to help local suppliers develop into world-class businesses with the ability to export services and technology abroad. The objectives of the programme were to develop 250 Chilean-based resource industry suppliers into "world class" global suppliers by 2020 (later extended to 2035) through the upgrading of the technical and managerial capabilities of providers to the mining industry.

Two main participants are involved in the Programme: the multinational mining companies and the Chilean suppliers. The mining companies are involved in: 1) identification of the technical challenges; 2) selection of the suppliers; and 3) development of the operational project providing training, advice and infrastructures for testing the solutions. The incentive for the MNE is to find a solution for an operational problem not previously addressed and to improve the supplier's capabilities. The Chilean suppliers are involved in: 1) elaborating a solution to an operational challenge; 2) developing a technical project; and 3) developing a world-class path agenda, including how to scale up from local to international markets. The incentive for the suppliers is to invest in an innovative solution with a known demand and a guaranteed market, with a reduction in the level of uncertainty associated with the R&D investment.

A third player is *Fundación Chile*, a public-private foundation which acts as a broker between the mining firms and the suppliers. *Fundación Chile* designed the methodology for the development of the suppliers and, through the mobilisation of a team of external advisers, provided training and technical assistance to the new suppliers.

Project investments are in the range of USD 100 000-20 million, with consulting costs in the range of USD 10 000-40 000. As of 2017, the programme had facilitated the development of over 100 projects.

Factors of success

The Programme has been successful in achieving incremental innovation and some positive, albeit small, impact on exports. One of the highlights was the institutional strengthening that stemmed from the new linkages between local industry suppliers and the mining companies and new perspectives on corporate social responsibility activities. The new solutions implemented by the mining companies had positive effects on their operations, the local suppliers gained access to a regular market for their upgraded services, and the government benefited from more sustainable production in the mining industry. An additional factor of success was also the access of supplier firms to public funds and R&D tax incentives.

Obstacles and responses

The number of suppliers participating in the programme is still very small: 100 of the more than 6 000 estimated suppliers in the Chilean mining industry. It is not clear if the low number of recipient firms is due to low average skills among suppliers or to the cost undertaken by mining firms to detect technical challenges. Likely, both supply and demand factors have restrained the size of the programme.

Moreover, while the programme has been successful in addressing the technological problems identified by the mining companies, it has been less successful in helping supplier firms to replicate and scale up the technological solutions to the international market. This may be due to an incentive problem: while there are incentives for joint collaboration during the first phase, there is not a strong rationale for MNEs to provide their facilities for testing during the scale-up phase of the project. In addition, the scale-up of the innovation and its internationalisation require investments that are beyond the existing public funding possibilities.

Relevance to Viet Nam

The programme is innovative and has the potential to help suppliers and MNEs to build up a mutually beneficial long-term relationship around the themes of training, technological improvements and innovation. In addition, although the programme was originally launched in the mining sector, its principles are easily transferable to other sectors and value-chains.

Sources: Atienza and Valdés (2016[30]), "World Class Suppliers Program: The case of the mining cluster policy in Chile", Economics Department, Universidad Católica del Norte, Antofagasta, Chile
Bravo-Ortega and Muñoz (2015[31]), "Knowledge Intensive Mining Services in Chile", Discussion Paper No. IDB-DP-418, Inter-American Development Bank;
Navarro (2018[32]), "The World Class Supplier Program for mining in Chile: Assessment and perspectives", *Resources Policy*, 58: 49-61

Box 6.9. Malaysia's measurement and testing centres

Compliance with international standards is an important requirement for suppliers in GVCs. The Malaysian government has built a number of labs, testing centres and other technical facilities to ensure that local suppliers have access to the measurement and testing services needed to comply with international quality certifications and standards. A key institution is the National Applied R&D Centre, which houses labs offering advanced testing services at subsidised rates. In addition, the Penang Skills Development Centre (PSDC), a public-private initiative involving the government, universities and industry, hosts one of the largest electromagnetic compatibility labs in Southeast Asia, as well as other shared testing facilities. With access to modern testing services, Malaysian companies can meet GVC quality requirements at a more affordable cost than if they had to invest in their own equipment or rely on overseas labs.

Sources: OECD/UNIDO (2019[6]), Integrating Southeast Asian SMEs in Global Value Chains: Enabling Linkages with Foreign Investors, http://www.oecd.org/investment/Integrating-Southeast-Asian-SMEs-in-global-value-chains.pdf; National Applied R&D Centre, http://www.mimos.my/technology/national-facilities/; Penang Skills Development Centre (PSDC), https://www.psdc.org.my/services/electromagnetic-compatibility-lab

Compliance with social responsibility and environmental codes of conduct are increasingly required in GVCs

In a country like Viet Nam whose engagement in value chains has so far been mainly in labour-intensive manufacturing, upgrading the participation of local suppliers in GVCs will also involve better compliance with international social and environmental codes of conduct. Compliance with these standards has, in fact, become a common prerequisite for accessing global buyers. Awareness raising among domestic companies of international codes of conduct could be promoted with the assistance of lead firms, while universities could include issues related to business social responsibility and environmental standards in their educational and training programmes. Lead firms could also be involved in supporting through cost-sharing the participation of domestic companies in "responsible supply chain management" initiatives. An example is the Viet Nam Business Links Initiative, a collaboration of international footwear brands to help local SMEs in the footwear sector to improve compliance with supplier codes of conduct (OECD/UNIDO, 2019[6]).

Conclusions and policy recommendations

Viet Nam, emerging quickly as a manufacturing hub and home to some of the largest MNEs in South East Asia, has grown mostly as an export platform. However, there have been limited opportunities for FDI spillovers deriving from the local sourcing of inputs and intermediate products by foreign investors. Enhancing business linkages has clear advantages for all parties involved in the process. Suppliers can generate jobs and improve their competitiveness, potentially moving up the value chain. Foreign investors can reduce costs by sourcing more complex parts and components from local companies. The domestic economy in general can improve its competitiveness from spillover effects, leading to an increase in productivity, innovation capacity, skills and wages.

Policies meant to attract FDI are very different from policies aiming to capture possible gains from GVC integration (Pietrobelli and Staritz, 2018[33]). To capture these gains, it is necessary to undertake programmes to strengthen firm-level capabilities, encourage supportive research from universities, foster a wide offer of advanced services, especially in the field of testing and certifications, build an efficient credit system geared towards the provision of supply chain finance and long-term credit, nurture a well-educated labour force, and build good-quality soft and hard infrastructure.

The following policy recommendations are offered to strengthen business linkages between MNEs and SMEs in Viet Nam.

Policy recommendations on business linkages in Viet Nam

- Increase flexibility in the criteria for identifying "supporting industry" products to account for changes in industries and global value chains, expand the list to include key value chain services, and extend incentives beyond first-tier suppliers.
- Introduce, in close collaboration with Viet Nam-based multinational enterprises (MNEs), supplier development programmes aiming to build up the capacity of SMEs to meet the international standards requirements of MNEs.
- Enhance the existing supplier database to facilitate linkages between MNEs and local suppliers, including by posting it online and introducing quality assessments of local suppliers.
- Enhance the integration of foreign and domestic firms in the national innovation system and promote institutions offering specialised services to supporting industries, such as testing and certification agencies.
- Involve national universities and vocational education institutions in building up the technical and soft skills needed in GVCs.

- Implement supply chain finance mechanisms to smoothen commercial transactions between local domestic suppliers and MNE clients.
- Improve the GVC-related regulatory environment, notably contract enforcement and border procedures, making them more transparent and predictable.
- Upgrade the transport system including ports, airports, roads and rail links, establishing corridors among the major poles and trade gateways, and developing a mobility strategy within the main economic centres.
- Enhance compliance of domestic suppliers with international codes of conduct addressing labour and environmental standards.
- Introduce monitoring and evaluation of business linkages programmes, including the Supporting Industry Development Programme, identifying key indicators and regularly collecting data and feedback from participating MNEs and SMEs.

Notes

1 The AmCham (2019[2]) survey was conducted by the American Chamber of Commerce in Singapore with senior executives in US companies based in Viet Nam. The Economist Intelligence Unit (EIU) survey included responses from senior executives active in the main Asian countries, Australia and New Zealand.

2 Data from fDi Markets, https://www.fdimarkets.com/.

3 Gross exports can be decomposed into two main components: Foreign value added (FVA), i.e. the value of intermediate imports embodied in gross exports, and Domestic value added (DVA), i.e. the value of domestically produced intermediates in gross exports (OECD, 2019[35]). FVA is considered a measure of "backward linkages", that is, when an economy imports intermediates to produce its exports. DVA is considered a measure of "forward linkages", as it captures the domestic value-added contained in inputs exported to a partner country.

4 DVA also depends on the export specialisation of each country. For instance, Indonesian exports are driven by oil, palm oil, gas and rubber, which explains the much higher DVA compared to Viet Nam where exports are mainly manufactured goods (Amendolagine et al., 2019[34]).

5 Based on responses to the WEF executive opinion survey questions as input to the Global Competitiveness Index 2017-2018, "In your economy, how numerous are local suppliers?" and "In your economy, how do you assess the quality of local suppliers?".

6 With the exception of Panasonic and LG, which have older facilities in Viet Nam producing consumer appliances for the domestic market.

7 "Why Samsung of South Korea is the biggest firm in Viet Nam", *The Economist*, 12 April 2018, https://www.economist.com/asia/2018/04/12/why-samsung-of-south-korea-is-the-biggest-firm-in-vietnam.

8 For instance, most inputs for Samsung products are imported and those sourced domestically are provided by Viet Nam-based foreign suppliers from Korea, Japan, Malaysia, Singapore and UK (Sturgeon and Zylberberg, 2017[14]).

[9] For example, among the members of the Viet Nam Association for Supporting Industries (VASI), only 14% of the 132 firms specialised in metal processing and 25% of the 16 firms in electronics and electrical components had ISO 14 000 certifications. This increased to 47% among the 36 suppliers specialised in plastics and rubber.

[10] Information from the World Bank database (Services, value added (% of GDP), 2019 data,https://data.worldbank.org/indicator/NV.SRV.TOTL.ZS).

[11] The definition of supporting industry is set out in Decree No. 111/2015/ND-CP on the development of supporting industries, 3 November 2015.

[12] Prime Minister Decision No. 68/QD-TTg approving the Programme on the development of supporting industries during 2016-2025, 18 January 2017, https://vanbanphapluat.co/decision-68-qd-ttg-2017-program-on-development-of-supporting-industries-during-2016-2025/.

[13] For instance, a pre-determined list of parts and components eligible for government support can represent a limitation for potential suppliers of new inputs, such as new textile materials, or suppliers trying to undertake inter-chain upgrading, for example when producers of metal components try to shift from the motorcycle industry to commercial vehicles and buses.

[14] The MPI, for example, has signed a Memorandum of Understanding with SME support agencies (e.g. VIETRADE) and business associations, such as the Viet Nam Association of SMEs (VASME), the Viet Nam Association for Supporting Industries (VASI), the VCCI, and the Viet Nam Textile and Apparel Association (VITAS), to deliver training and consultancy services to build the capacity of Vietnamese SMEs to participate in manufacturing supply chains. In addition, it organises events and platforms to facilitate linkages between SMEs and lead firms.

[15] In particular, TACs co-operate with the Japanese International Cooperation Agency (JICA) to send senior experts from Japan to SMEs in supporting industries with the objective of offering advice on technical innovation, production and quality management and facilitating connections with Japanese companies.

[16] The USAID LinkSME project provides technical support to local SMEs to help them participate in GVCs and assists foreign companies in finding qualified local suppliers.

[17] Based on information from the International Telecommunications Union, https://www.itu.int/net4/itu-d/idi/2017/index.html#idi2017economycard-tab&VNM.

[18] “IFC Promotes Supply Chain Finance in Viet Nam, Improving Competitiveness of Local MSME Suppliers”, International Finance Corporation Press release, 11 November 2019, https://ifcextapps.ifc.org/IFCExt/Pressroom/IFCPressRoom.nsf/0/0611FB41CE54EBA3852584AF001DCF6C.

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7 Business Development Services in Viet Nam

This chapter describes and assesses the current institutional arrangements for providing business development services (BDS) to start-ups and small and medium enterprises (SMEs) in Viet Nam, the support services offered, and the approaches taken to meet their needs. The main aim of BDS is to enhance the competitiveness of SMEs by strengthening their managerial skills and, consequently, their ability to compete in domestic or international markets. The Agency for Enterprise Development (AED) is charged with BDS promotion in Viet Nam, notably through the three Assistance Centres for SMEs (known as TACs), which are located in the three main cities of Ha Noi, Da Nang, and Ho Chi Minh City. The TACs play an important role for SME development and should be strengthened, notably by facilitating access to their services by SMEs located in distanced locations. Going forward, it would also be important to further stimulate the rise of a private market for BDS, for example by helping SMEs cover the costs of private sector consultancy services, as well as to develop mechanisms to co-ordinate the effective delivery of quality BDS across central ministries/agencies, provincial authorities, business associations, and private providers. In parallel, it will also be key to ensure the good quality of the private sector BDS being subsidised by taxpayer's or donor's resources.

Business Development Services (BDS) markets

"Business development services" (BDS) refer to services, such as advice, training, consultancy and mentoring, aimed at upgrading the managerial skills and business practices of SME managers (see Box 7.1). There is good evidence that BDS does improve SME performance through productivity growth and access to new markets (Piza et al., 2016[1]; Cravo and Piza, 2019[2]).

Information, advisory, consultancy and mentoring programmes can support entrepreneurs and small business owners on all aspects of starting and operating a business through various phases of their development. BDS may be delivered through public agencies or through private or not-for-profit organisations, either in generic form or on a customised basis; it may be delivered through physical centres, via telephone, or online; it may be offered as free-standing services or integrated into other programmes; and it can be offered on a no-fee basis to the client, at a government-subsidised rate, or on a full user-pay basis (OECD, 2020[3]).

In recent years, the demand for BDS among Vietnamese SMEs has surged alongside the greater integration of Vietnamese firms into the global economy. Although Vietnamese business owners have shown a preference for solving internal issues by themselves (Edwards and Phan, 2013[4]), the process of certification, which remains important to firms wishing to engage in global supply chains, has fuelled demand for outside sourcing of BDS. However, at present, local access is still limited and many SME are unaware of BDS providers or not fully cognisant of the value of this service. The prevalence of BDS providers, including private BDS, in central cities, may fuel urban SME development, but also exacerbates regional disparities.

Box 7.1. The roles and functions of business development services

Business development services can be broadly defined as "…services that improve the performance of the enterprise, its access to markets, and its ability to compete (…)". It includes a wide array of business services, both strategic and operational that may include training, consultancy and advisory services, marketing assistance, information, technology development, technology transfer, and business linkages promotion. "Operational services are those needed for day-to-day operations, such as information and communications, management of accounts and tax records, and compliance with labour laws and other regulations.... Strategic services can help the enterprise to identify and service markets, design products, set up facilities, and seek financing" (The Committee of Donor Agencies for Small Enterprise Development, 2001, pp. 1-11[5]).

The 2017 SME Support Law and the Decrees, Directives, and Circulars issued to guide its implementation place a priority on establishing mechanisms to meet the BDS needs of SMEs. This includes directives for training in entrepreneurship and business administration for start-ups and SMEs (and creating demand for this through subsidisation of the training costs); establishment of a network of consultants and consultancy services to provide subsidised BDS to SMEs; and development of a national website to serve as an integrated access point for SMEs to obtain information relevant to their operations.

Main BDS providers

This section briefly describes the main providers of BDS support to SMEs in Viet Nam. Government institutions such as the Agency for Enterprise Development (AED) and the Assistance Centres for SMEs, commonly known as TACs (from the previous name of Technical Assistance Centres) serve as the focal points to co-ordinate SME policies related to BDS. In addition, there are about 20 SME support centres under the provincial People's Committees or Departments of Planning and Investment (DPIs). National business associations advise and support member enterprises through information, training and consultancy activities. Private sector BDS organisations play a more limited role.

Central government BDS support

The Agency for Enterprise Development (AED) is responsible for key BDS components

The AED, under the Ministry of Planning and Investment (MPI), is responsible for overseeing the implementation of the SME Support Law, co-ordinating with central ministries and People's Committees on SME support issues, and monitoring the development of SME support programmes. The AED also aims to facilitate the development of a BDS market for SMEs and manages direct BDS support through the three Assistance Centres for SMEs (TACs), which are located in the three main cities of Ha Noi (North), Da Nang (Centre) and Ho Chi Minh City (South).

In accordance with the SME Support Law, the AED is tasked with building and maintaining a National SME Support Portal (www.business.gov.vn). The portal's function is to serve as the "first port of call" for entrepreneurs and SMEs seeking knowledge on matters essential to the operation of their businesses and up-to-date information on the available support services. In OECD countries, an online SME information portal is an important tool for assisting interested entrepreneurs and SMEs, regardless of location, with access to practical information and guidance and links to sources of assistance from public and private institutions. Online support can offer basic business advice to firms in a lower cost manner than traditional face-to-face formats. This opens up the possibility to expand the reach of business information and advisory services to a large number of SMEs (OECD, 2018[6]).

Viet Nam's National SME Support Portal is a work-in-progress and not yet the "hub" for all relevant information to SMEs envisaged by the SME Support Law. The AED is in the process of developing an online system to match SMEs with a database of "approved" consultants to provide subsidised services; updating the existing online database of agencies and organisations supporting SMEs; and incorporating a business linkages database to facilitate connections between local suppliers and leading industrial firms operating in Viet Nam. Provincial authorities also help maintain the National SME Support Portal by providing information on events in their locality, although linkages with other portals hosted by cities and provinces would add value for SMEs searching for broad-based and inclusive information.

The "health check diagnostic" is a strong feature of the National SME Support Portal

One of the strong features of the National SME Support Portal is a "business health check" diagnostic tool, which has proven to be effective in prompting small business managers to make changes (Cowling and Oakley, 2009[7]). This easy-to-use tool enables SMEs to self-assess their internal capabilities in 10 key areas (e.g. marketing, leadership, personnel, financial management and work productivity) and identify the areas of the business most in need of attention. A traditional (non-digital) health check involves meetings with an external adviser who can clarify any questions SME managers may have, interpret results of the assessment, probe for further information, and direct SME managers to the appropriate resources to help with remedial actions. A digital self-assessment diagnostic tool does not incorporate this face-to-face interaction with an advisor, which could be a limitation. To address this issue in Viet Nam, the AED is implementing a pilot project, in partnership with a private business coaching firm, to test how a coaching service might work with the online business health check. During the pilot, an SME manager completing the self-assessment can schedule a one-hour (online) appointment with a Business Coaching Expert to discuss the results and receive advice and direction. This service should add significant value to the diagnostic experience, with close monitoring of the outcome by the AED.

The Assistance Centres for SMEs (TACs), which are the primary source of public BDS, could be strengthened

The TACs are the main public providers of BDS to SMEs. From their central locations, they purport to serve the northern, central and southern provinces of the country. The consultancy services are often incorporated as a component in the delivery of specific SME support programmes that target cohorts of SMEs. An example is the Productivity Improvement Programme (PIP), which emphasises the implementation of the structured Kaizen 5S system to boost operational efficiency in business enterprises.[1] TACs also provide on-site technical management training for a small number of companies, often contracting with external experts to deliver the training.

The Ha Noi TAC has innovated with expanding its reach to a broader base of SMEs by developing an online E-learning system.[2] This seeks to make expert knowledge accessible to SMEs that would likely not meet the criteria for participation in the TAC's main BDS programmes. The learning platform includes short lectures and "talks" on problems and solutions related to sales, marketing, finance and leadership skills, among others, that can be accessed from a learner's smartphone. As a next step, to take further advantage of the online learning technology it has developed, the TAC could consider adding more comprehensive, interactive course content, along the lines of Turkey's E-Academy Platform (see Box 7.2).

Box 7.2. Turkey's E-Academy Platform

E-Academy is the Turkish Government's entrepreneurship training platform. It was launched in August 2019 by the SME Development Organisation of Turkey (KOSGEB). The E-Academy Platform includes lecture videos, interactive course content, and exam modules. The training is accompanied by access to the online KOSGEB Entrepreneurship Handbook, which outlines and explains the 16 modules spread over two levels of training. The Traditional Entrepreneurship Training includes 8 modules covering the basics of planning and starting a new business in traditional sectors. The Advanced Entrepreneurship Training includes 8 modules covering issues such as innovation management, intellectual property rights, and management of growth processes and strategies that are tailored to innovative and technology-based enterprises.

Factors of success

The E-Academy Platform makes practical entrepreneurship training more conveniently available to interested potential entrepreneurs and SMEs in all regions of the country, without the space, scheduling and costs constraints of the traditional site-specific, classroom-based training format.

Learners receive a certificate upon completion of the training courses, which may be a prerequisite for admission to some of KOSGEB's SME Support Programmes.

Relevance to Viet Nam

The TAC E-Learning platform could be enhanced by developing a similar series of more comprehensive and interactive training modules. This would be compatible with the emphasis of the SME Support Law on the provision of training on entrepreneurship and business administration, including online access. The more fully-developed training modules could be directed to SMEs as an initial follow-up step in addressing weaknesses identified in their diagnostic health check self-assessment.

Source of further information

KOSGEB e-Akademi distance training system; https://en.kosgeb.gov.tr/site/tr/genel/destekdetay/7210/entrepreneurship-training/

In addition to the TACs, other central ministries and agencies implement SME support programmes that involve training, advisory and consultancy services to "targeted" SMEs, such as SMEs in supporting industries or "science and technology enterprises" (STEs). For example, the Supporting Industry Enterprise Development Centre (SIDEC) provides consulting and training related to ISO quality management and control systems; VIETRADE has a general consultation desk for exporting companies; and the National Agency for Technology Entrepreneurship and Commercialisation (NATEC) operates a Training and Support Centre for technology-based companies.

Each of the state-level institutions functions separately, with very little inter-institutional co-ordination or cross-fertilisation. The government should seek to achieve a greater level of inter-institutional co-ordination in the area of SME support and, specifically, in the provision of BDS to avoid possible duplications and inefficiencies in the use of public resources (see further discussion in later section of the chapter).

Provincial-level BDS support

Provincial government support for BDS could benefit from central government assistance

Viet Nam has a partially devolved system for supporting SMEs that allows provincial People's Committees to establish their own SME support mechanisms (as per the SME Support Law). The AED draft report on the implementation of the SME Support Law after two years (issued in March 2020) reported that 50 of the 63 provinces had programmes to support SMEs. Provincial Departments of Planning and Investment (DPIs) have each assigned a "focal point for SME development assistance", but in general local branches of government are at an early stage in developing SME support programmes and services.

Devolving business support to the sub-governmental level has merit, particularly with respect to local knowledge of resident SMEs, but also poses challenges. The main potential weakness is a lack of local competence in developing an SME support plan and business development programmes (Thuy, 2017[8]). The MPI has organised capacity training for local officials to improve the quality and effectiveness of local SME support activity; even so, a number of provinces still do not have a plan for local SME support.

Many localities implement programmes of training and retraining of human resources, which are in high demand by SMEs at the local level. Local governments also provide free consultancy services to household businesses on administrative taxation procedures and accounting regulations in an effort to encourage their formalisation (as per the SME Support Law).

Forms of business assistance are offered through various provincial-level offices, such as Investment Promotion Centres, Trade Promotion Centres, and Business Registration Offices, but fewer than 20 provinces have established "designated" centres for SME support, advice, and enterprise development assistance.[3] The SME Support Centre at the Ha Noi DPI is one of the best examples.[4] The SME Support Centres co-ordinate little with each other, and have few opportunities to exchange experience and good practices. In this regard, the TACs, on behalf of the AED, could assume a more strategic role in overseeing the development of BDS in their respective regions. They could become a "hub" for BDS expertise by providing training courses and professional guidance on SME support for provincial leaders and staff. Support for capacity building and expertise-sharing relative to SME assistance is clearly needed and would strengthen the BDS delivery capacity of provincial entities, ideally leading to a more consistent set of BDS offers and programmes.

Business associations and BDS

Business associations play a key role in provision of BDS

The major business associations are actively engaged in providing BDS support to their member enterprises. The Viet Nam Chamber of Commerce and Industry (VCCI) disseminates information about various SME support programmes and delivers training programmes, often carried out in partnership with other institutions (e.g. the ILO Start and Improve Your Business/SYIB course). A number of VCCI branch locations operate their own SME Promotion Centres (SMEPCs). In particular, the SMEPC in Ho Chi Minh City delivers support to SMEs in the six neighbouring provinces. This includes training, consultancy, information, trade promotion, and events (e.g. workshops, seminars, conferences). Training courses and other services help SMEs improve their business planning, management, marketing and export skills; strengthen linkages with value chains; learn about 5S, lean production, and acquiring quality standards; and expand their domestic and foreign markets. A small number of courses are also targeted to household businesses, mainly covering tax compliance and record-keeping (which are subsidised by the state in accordance with regulations of the SME Support Law).

The Ha Noi SME Association serves SMEs through its two business support centres. The Legal Counselling Centre offers training courses in conjunction with legal partners and provides direct advice to SMEs on legal issues. The Trade Promotion Centre offers training courses to SME managers and facilitates trade connections with Vietnamese embassies. The Association also offers short courses on entrepreneurship; delivers customised courses and on-site training to specific SMEs on a request basis; consults with start-ups, business incubators and investors; and organises Business Forums to advise SMEs on IT solutions and the application of Industry 4.0 technologies to enhance business competitiveness.

The Viet Nam Association for Supporting Industries (VASI), an important partner of the MPI, the Ministry of Industry and Trade (MOIT) and the Ministry of Science and Technology (MOST), provides training, general consultation services, and hands-on management support to improve the capacity of its member firms as suppliers in global value chains. It also facilitates business-matching with domestic buyers and exporters.

The Viet Nam Association of SMEs (VINASME) provides some counselling and support to SMEs on production and business practices to improve competitiveness. It trains about 5 000 firms a year; the most popular courses being basic training on business administration and compliance with new regulations. Given that VINASME is the largest business association in the country (over 60 000 members), its role in BDS provision appears to somewhat limited.

Private-sector BDS

The private BDS market is relatively modest but recent SME policy measures could help stimulate the offer

The private consultancy industry in Viet Nam is still small and plays a modest role in Viet Nam's SME landscape. There are three kinds of private consultancies in the country: 1) large, multinational consulting firms that serve mainly foreign enterprises and joint venture companies; 2) small consulting firms with up to three consultants; and 3) individual freelance consultants (JICA, 2019[9]). Most of the consultancy firms specialise in certain areas, such as 5S, lean production, accounting/taxation or marketing. The selection of firms which could provide comprehensive management consulting services is limited.

Few local SMEs can afford, or are willing to pay, the expensive consulting fees of the large consulting firms (USD 500-1 500/day) or the local consulting firms (USD 350-1 000/day). Even the smaller Vietnamese consulting firms have not been wholly successful in tapping into the local SME market (JICA, 2019[9]). As well, the majority of private consultancy firms are located in the central cities, namely, Ha Noi, Ho Chi Minh City and Da Nang. From these bases, they may in principle extend their services throughout the northern, southern, and central provinces, although there is evidence that the use of BDS diminishes with distance from the location where it is delivered and that small companies in peripheral regions are less likely to be aware of the existing BDS offer.

Market failures in the provision of private BDS to SMEs (i.e. availability, accessibility, cost) justify government intervention (OECD, 2020[3]). Policy measures may include making consultation services available in public institutions, such as through the SME support centres, or stimulating demand for private BDS through the use of subsidised consultancy programmes. As a general rule, public provision of BDS should not have a crowding-out effect on private providers.

In this regard, the Vietnamese government is implementing a national policy to create a private sector market for BDS. The SME Support Law mandated the establishment of a network of consultants and consultancy services to provide subsidised BDS to SMEs. The AED's Circular (No. 06/2019) on the operation of the consultancy network was issued in mid-2019 and steps are underway to establish and populate the network. Broad circulation of the call for applications will create awareness of this opportunity among private BDS providers and should stimulate a market response. Being approved as a network member will bring new business from the SME sector through the government's BDS subsidy programme and provide an incentive for the private BDS providers to participate.[5] Going forward, the AED should monitor the private sector take-up and implement remedial actions, as necessary, to attract a larger number of firms, with diverse competencies, and from all parts of the country (not only the three major cities).

A framework for the development of BDS

The framework for future development and improvement of the BDS system in Viet Nam should address three major issues: 1) designing a low-cost scheme reaching a wide range of SMEs; 2) assuring the quality of consultants, advisors and service delivery, and 3) implementing a mechanism to foster co-ordination of the existing BDS providers.

Designing a low-cost scheme reaching a wide range of SMEs

It is important to develop a low-cost mechanism for reaching out to the mass of SMEs and to target policy where the market fails, i.e. the underserved markets. There are two prongs to this approach. First, there is a need to develop a lower cost service that can be rolled-out to many more SMEs. SME web portals with online diagnostic tools, interactive training materials, and "virtual" advisors are an increasingly popular "low cost, high reach" approach of governments in OECD countries. In Viet Nam, the National SME Support Portal could be further enhanced to become the "go-to" hub for all information, knowledge, guidance and resources necessary for entrepreneurs and SMEs. The AED should seek to achieve this by, for example:

- Expanding information and guidance to SMEs on starting and growing a business;
- Integrating content and tools adding value from websites of other Vietnamese organisations, such as the Ha Noi TAC E-learning tool;
- Enriching the learning opportunities for entrepreneurs by developing interactive training modules, similar to Turkey's E-Academy;
- Animating the online database of approved consultants, specifying their expertise and matching it with the existing offer of subsidised consultancy services;
- Adding a virtual "question and answer" window for entrepreneurs to ask their questions and receive a response within a short period of time.

Reaching underserved BDS markets in Viet Nam's peripheral regions is an ongoing challenge. Peripheral areas are less attractive locations for BDS providers because they are not only harder to reach, but they also have lower firm density and a higher proportion of firms in less productive sectors than cities (Johansson and Klaesson, 2011[10]). Consequently, BDS markets in these regions are less likely to be self-supporting. Given these factors, fully-funded or subsidised BDS schemes are critically important. Experience from BDS actors in large cities, such as the Ha Noi SME Association, is valuable to SMEs in less central areas, especially in transferring capabilities and providing ring-fenced (financially separated and protected) funds for BDS. The National SME Support Portal is part of the solution to supporting SMEs in non-urban areas, assuming Internet access. Other options to consider to reach into these markets are partnering with local SME associations, making use of virtual counselling or coaching sessions, and operating a Mobile BDS Clinic that travels to remote locations on a periodic schedule (see Kazakhstan example in Box 7.3).

Second, an emphasis on cost-recovery from BDS programmes aimed at SMEs would reduce net costs. Evidence from experimental studies shows that beneficiaries pay more attention to advice that costs them personally (Gino, 2008[11]). A voucher scheme would largely fit in the cost-recovery approach. Vouchers enable firms to apply the subsidy as a one-off taster for a business support service, realise its value and be more willing to pay full costs thereafter. Thus, the BDS development framework should include adoption of a voucher scheme to cover a portion of the cost of acquiring a BDS service.

Box 7.3. Mobile Entrepreneur Support Centres, Kazakhstan

Kazakhstan's Ministry of National Economy operates a "single window" network of Entrepreneurship Support Centres (ESCs) in partnership with offices of the National Chamber of Entrepreneurs. To address the needs of SMEs in rural villages, the government of Kazakhstan has created Mobile Entrepreneur Support Centres as an integral component of the ESCs. These mobile units make regularly scheduled visits to rural areas to provide initial advice and information to aspiring and existing entrepreneurs, and disseminate information and handouts on government assistance programmes.

Source: OECD (2018[12]) SME and Entrepreneurship Policy in Kazakhstan 2018, OECD Publishing, Paris.

Assuring the quality of consultants, advisors and service delivery

The Government guidelines for implementing a national consultancy system state the basic criteria to be applied in accepting individual consultants and consultancy firms into the network of consultants. Individual consultants must have professional qualifications, experience, and level of education appropriate to meet the needs of SMEs (based on evidence provided in curriculum vitae, training certificates and experience records). Consultancy firms must submit their experience record, résumés of staff consultants and establishment licence. Focal point units in the government manage, supervise and evaluate the operation of the network of consultants in their respective branches, including an annual review of the performance of the network.

However, additional efforts may be required to assure quality in the actual service delivery. This could include the administration of SME client surveys on the quality of work delivered and the overall relationship with the assigned consultant. While it may still be too early for the AED to identify any capacity or quality issues in the consultancy network, the Agency's officials should be anticipating approaches to addressing these kinds of issues. The experience from Poland illustrates an approach to ensuring the quality of BDS providers and services nationwide (see Box 7.4).

Box 7.4. The approach of the Polish Agency for Enterprise Development to ensuring BDS quality

Description of approach

The Polish Agency for Enterprise Development (PARP) is responsible for running the National SME Services Network (KSU), a national umbrella for service providers. The network gathers over 200 member organisations providing state co-financed BDS to SMEs and entrepreneurs: non-governmental organisations, regional development agencies, chambers of commerce and industry, employers' organisations, crafts associations, technology centres, business incubators, credit guarantee funds, loan funds, foundations, and small consulting firms. PARP is the co-ordinating body for the functioning of the KSU support centres, setting the rules for the accreditation of institutions and consultants providing services to enterprises. It also provides technical and capacity building support to KSU network organisations; conducts performance assessments to test the quality of services provided by KSU centres; and provides training for KSU consultants to ensure adequate quality of services.

Factors of success

The KSU network has succeeded in upgrading the quality and uniformity of standards of publicly-funded BDS services in Poland. The method of accreditation of institutions and professionals providing services to enterprises is one of the factors behind this success. All business support organisations belonging to the network must meet the standards and quality criteria for accreditation as a PARP support provider. All members must demonstrate they have the technical and financial capacity to adequately provide advisory, training, and information or financial services to start-ups, microenterprises, and SMEs; have a quality assurance system in place; and act in accordance with professional ethics standards. Consultants providing business development advice under PARP-supported schemes must also be individually accredited. Over 1 400 consultants have been accredited to work in the KSU system.

Obstacles and responses

Monitoring the quality of BDS provision requires a systematic approach. PARP monitors the activities of business support providers by collecting data on the number of clients served, the percentage of start-ups versus existing SMEs supported, and the nature of the service provided. This information helps in identifying imbalances in the allocation of services and possible adjustments. PARP also undertakes client satisfaction surveys to assess the quality of services provided by the KSU centres, as well as research on the demand for and supply of business support services. This provides important insights on how to customise and improve services to better meet client needs.

Relevance to Viet Nam

The PARP experience provides a model for Viet Nam to design a quality system for BDS providers under the requirements of a national consultancy system. This includes establishing the foundational framework for upgrading the quality of business support services through a system of accreditation, quality monitoring, and capacity building.

Sources: Polish Agency for Enterprise Development, https://en.parp.gov.pl/; OECD (2010[13]) *Poland Key Issues and Policies*, OECD Studies on SMEs and Entrepreneurship, OECD, Paris.

On the other hand, there is already a great deal of variability in the capacity and competence of officials working in public agencies and SME support centres (or equivalents) to deliver BDS support. In many OECD countries, governments will provide training and capacity building to public sector employees engaged in providing services to SMEs. This might include training in comprehensive care methodologies, counselling techniques, or other approaches to ensure a standard level of consistency and quality in service provision. For example, in the Philippines, all business counsellors and staff employed in the Negosyo Centres must undergo the Small Business Counselling Course training that covers modules on business diagnostics strategic marketing, operations management, and investment promotion. Business facilitation training is also delivered to regional staff.

No organisation in Viet Nam has been assigned responsibility for training or building capacity of consulting/advisory service providers, while at the same time, very few public service providers have capability in comprehensive diagnosis of the weakness of an enterprise and its underlying cause (JICA, 2019[9]). To address this gap, the AED, in co-operation with the TACs, should examine the issue of consistency and quality of service delivery in the provincial-level SME support centres, and elaborate a strategy to build the competence and capacity of frontline staff delivering BDS programmes to meet minimum quality standards.

Ultimately, Viet Nam could implement a qualification or accreditation system for BDS consultants/advisors in both the public and private sectors.

Building a co-ordinated system for existing BDS providers

In its oversight role, the AED links national, regional (TACs) and provincial efforts in developing business support. However, SME support and delivery of various BDS is dispersed across many Vietnamese organisations, including government, non-governmental and private sector actors, and lacking an established mechanism to promote co-ordination.

To address this issue, the MPI and the AED have partnered with the Japan International Cooperation Agency (JICA) on a pilot project in Ha Noi and Ho Chi Minh City to build a network of the varied BDS organisations and consultants as the foundation for a comprehensive SME support system (JICA, 2019[9]). The aim of the pilot was to improve information-sharing and effective delivery of BDS to SMEs. Lessons learned from the pilot revealed two important issues. Firstly, there are advantages to creating a network of BDS providers in a province and clarifying the roles and functions of each one. Essential to this process is an initial mapping of the public and private suppliers and their service offerings.[6] Secondly, it is necessary to standardise the quality of BDS consultation services. This can be achieved through training courses geared to strengthening the diagnostic, advisory and counselling capacity of members of the network. In addition, network members require orientation on use of a referral system to direct SME clients to the BDS provider(s) with the required expertise to solve their management challenges.

The MPI and the AED should build on the experience and lessons learned of the JICA pilots to launch BDS co-ordination projects in other provinces of Viet Nam. The experience of Thailand in implementing a similar project to build an integrated network of BDS providers may provide useful lessons for Viet Nam (see Box 7.5).

Box 7.5. The Regional Integrated SME Promotion (RISMEP) mechanism in Thailand

Description of approach

Thailand implemented the Regional Integrated SME Promotion (RISMEP) project as a partnership between the Thai Department of Industrial Promotion (DIP) and the Japan International Cooperation Agency (JICA). The objective was to build an integrated and "collaborative" network of BDS-providing organisations and professionals to deliver quality business advisory and consultancy services to SMEs in a more effective and efficient manner. The RISMEP project was initially implemented by the DIP Industry Promotion Centres (IPCs) in 11 provinces and later extended to other areas of the country. By 2019, 22 provinces were participating.

Factors of success

To produce a more horizontal, integrated approach to servicing the BDS needs of start-ups and SMEs, networks of Business Development Service Provider (BDSP) were formed in each province. Network members included the one-stop consultation counters, government offices, SME support organisations, independent consultants, financial institutions, chambers of commerce and industry, the Federation of Thai Industries, SME associations, and university lecturers. Information on the BDS-providing organisations and professionals (BDSPs) and their services was integrated into an organised list (database). This database was an essential tool to aid the process of selecting the appropriate support services (and providers) to meet the SME client's needs. The effective implementation of the collaborative referral system required all network members to be knowledgeable about all specialties and support programmes available throughout the network.

All network members were trained in the RISMEP approach and provided with a Compendium of Collaborative Support Models that included more than 20 modules dealing with various kinds of counselling and BDS issues. The use of the Japanese-developed Shindan "awakening tool" (simple diagnostic tool) aided the BSDP members to diagnose the client's needs and do proper referral to a network member.

The project was able to address the major factors impeding the usage of BDS by SMEs identified at the beginning of the pilot phase (JICA/UNICO, 2018[14]). The project's impact evaluation concluded that establishing a formal network among BDS providers in RISMEP provinces reduced the major supply-side constraints to the take-up of BDS services (by reducing the cost of search), resulting in increased demand for BDS services, particularly on technical and marketing issues (Suzuki and Igei, 2017[15]). Relative to control group provinces, RISMEP provinces experienced a greater increase in the number of assisted SMEs and referrals to other BDS providers. The BDSPs in the RISMEP networks expanded the availability of their services to SMEs by having websites and accepting online consultations, thus improving their overall BDS practices.

Based on the success of the project, in 2019, the Thai Government announced budget funding for the continuation and expansion of the RISMEP mechanism with the goal to establish it in all 76 provinces by 2023.

Relevance to Viet Nam

Viet Nam would benefit from a more co-ordinated approach to BDS delivery across the country. A project similar to the Thailand RISMEP mechanism could address this need. The responsibility for spearheading the initiative could lie with the AED. The TACs could assume responsibility for working with the People's Committees and SME support centres at the provincial level to develop and build the capacity of a network of accredited BDS providing organisations.

Sources: JICA/UNICO (2018[14]), "The Study on the Strengthening Mechanisms for the Regional SME Promotion and Consultancy Service Quality Development in the Kingdom of Thailand", Japan International Cooperation Agency and Department of Industrial Promotion, Ministry of Industry; JICA/UNICO International Cooperation (2018), "Regional Integrated SME Promotion (RISMEP) in the Kingdom of Thailand", Work Completion Report, Japan International Cooperation Agency; Suzuki and Igei (2017[15]), "Can Efficient Provision of Business Development Services Bring Better Results for SMEs? Evidence from a Networking Project in Thailand", JICA Research Institute, Tokyo.

Monitoring and evaluation of the BDS markets

Implementation of a monitoring and evaluation approach is essential to a well-functioning BDS system. As noted in Chapter 4, the Vietnamese government appears to be adequate on monitoring the progress of programme implementation, but less advanced in the conduct of formal evaluations to assess the impact of programme interventions on recipient firms. Applied to BDS, the purpose of monitoring activity is to track the take-up of BDS offers, the types of services being offered and received, and the level of satisfaction with the service. The purpose of an evaluation of BDS is to assess its value to SMEs and estimate the causal impact of particular BDS services on SME performance outcomes.

A monitoring survey of the BDS markets in Viet Nam would enable an assessment of supply and demand

A key monitoring question is whether the supply of BDS is meeting the demand. In order to provide top-quality business support to entrepreneurs and SMEs, it is necessary to systematically and regularly analyse the demand side of the market for these services. This can be done by examining the level of awareness entrepreneurs and SMEs have of the availability of support services; their needs with respect to the content and delivery methods of support services; their level of participation (take-up) in recent time periods (from public versus private sources); and their general attitude towards the use of BDS.

In Viet Nam, the AED could work with the General Department of Statistics or an independent research organisation to update its knowledge on the demand side of BDS and the penetration rate among all SMEs. This would involve carrying out a representative survey of the SME population to determine the take-up of existing BDS; the reasons why SMEs have not availed of public BDS support; the desired BDS of the two cohorts of survey respondents (those who have and who have not used BDS services); and their level of satisfaction with the BDS provision. The results of such a demand survey could produce factual evidence of gaps in meeting some specific BDS needs of SMEs, given the current supply offers, or difficulties in reaching certain segments of the SME population. For example, a BDS market with strong supply but weak demand suggests the need for raising the level of awareness or incentivising demand by introducing a voucher scheme (Sala, Landoni and Verganti, 2016[16]). On the other hand, a BDS market with strong demand and weak supply requires efforts to develop the BDS-providing sector. Information from the demand survey may also serve to identify new business support services appropriate to Viet Nam and its provinces. This could be ascertained from the reasons given by SME managers for their non-use of BDS, the percentage of non-users who nevertheless believe that BDS would be important to their business competitiveness, and the proportion of SMEs expressing a willingness to pay for a service (North et al., 2011[17]).

Evaluation of the BDS market would enable better decisions on its design and effectiveness

A formal evaluation of the BDS market can help quantify the cost effectiveness of public investment in BDS provision (Piza et al., 2016[1]), an important influence in the decision to expand successful programmes and terminate unsuccessful ones. A rigorous evaluation approach would require comparing the post-intervention performance of assisted firms (i.e. treatment group) with a control group of non-assisted firms from the same sector and sharing similar features to the treatment group. This could be done, for example, by comparing firms selected for support to firms that had applied but had not been selected only due to the budget constraints of the programme (OECD, 2008[18]). In addition, qualitative research, such as cases studies, might also be considered to shed light on the processes and mechanisms through which BDS achieves impact.

In summary, Viet Nam should take two actions to develop a good monitoring and evaluation process: 1) establish a bi-annual (monitoring) survey of SMEs to better understand the ongoing dynamics in the demand and supply of BDS; and 2) design and undertake an evaluation of BDS, preferably conducted by third parties, but in co-operation with a relevant administrative government department.

Conclusions and policy recommendations

While the context in Viet Nam is favourable for BDS development, there are still a number of weaknesses in the national BDS ecosystem. The delivery of BDS support is dispersed across a variety of organisational actors – central and provincial government bodies, business associations, and private sector consultancy firms – each functioning separately from the others, providing various forms of BDS support, with limited opportunities to exchange experience or collaborate. There is currently no mechanism for inter-institutional co-ordination of the BDS activities. Such a mechanism would help greatly in reducing the fragmentation of BDS support and its delivery across the country, increasing efficiencies, and filling gaps in service offerings. The AED should seek to achieve a greater level of inter-institutional co-ordination in the area of SME support and, specifically, in the provision of BDS. The MPI-AED should also continue the partnership with JICA to build on the Ha Noi and Ho Chi Minh City pilot project with a view to replicating the "comprehensive BDS support system" and collaborative network of BDS providers in other provinces of Viet Nam.

There is significant variability in the capacities and capabilities of the provincial-level SME support centres (or equivalents) to deliver quality BDS to SMEs, which needs to be addressed. Support for capacity building and expertise-sharing relative to SME assistance is clearly needed. This would strengthen the BDS delivery capacity of provincial entities, ideally leading to a more consistent set of BDS offers and programmes. In this regard, the TACs could assume a stronger leadership in developing the competencies and standards for BDS provision. This could entail developing training programmes focused on basic business knowledge, counselling techniques, and diagnostic skills, as well as guidance on the scope of standard BDS offers. The objective would be to raise the overall quality standard of all BDS providers at the local level.

The private BDS market is not well developed. The recent initiative to establish a network of consultancies, combined with the announcement of a subsidy scheme to promote the use of consultancy services by SMEs, should stimulate a rise in the supply of private providers. To control the quality of these services, the AED will need to play an active role in monitoring the individual assignments, including collecting feedback from SMEs on the consultancy experience.

Existing gaps in BDS provision to underserved SME markets should be addressed. This includes SMEs outside the main cities but may also apply to the mass of SMEs not fitting the profile of the priority target groups stipulated in the SME Support Law (i.e. innovative start-ups, SMEs participating in GVCs, and household businesses). Low cost, high reach approaches to serving these markets should be identified and put into place. The National SME Support Portal is an obvious avenue, assuming Internet services are available, but other virtual, physical, or mobile options may be considered. Since the National Portal is serving as the first-stop entry point for information and guidance, the AED should continue its efforts to enhance content, include value-added tools and resources, and develop linkages to the websites of partner organisations.

Finally, the AED should work with others to design and execute a monitoring and evaluation system for BDS support.

The following recommendations could be considered to strengthen the offer of BDS in Viet Nam.

Policy recommendations on business development services

- Consider establishing new Assistance Centres for SMEs to ease access to government-supported BDS by SMEs located away from the current three centres. Alternatively, build up and expand the capacity of the existing centres to reach more peripheral locations, for example through mobile training units.
- Encourage the rise of a private market for BDS by covering part of the training or consulting costs faced by SMEs, while also controlling and ensuring the good quality of publicly-subsidised, private-sector BDS.
- Introduce a BDS voucher scheme to create an incentive for more SMEs, especially in peripheral regions, to benefit from business development services.

- Examine the consistency and quality of BDS delivery in the provincial-level SME support centres, and elaborate a strategy to build the competence and capacity of staff to meet minimum service and quality standards.
- Enhance the comprehensiveness of the National SME Support Portal, including linkages with other national/provincial SME portal(s) and the integration of innovative tools, such as the TAC E-learning materials, to make it the "hub" for all information necessary for entrepreneurs and SMEs.
- Build on the pilot projects for a comprehensive BDS support system in Ha Noi and Ho Chi Minh City by rolling out this approach to other regions. In the meantime, conduct a mapping of BDS-providing organisations and business consultants in each province, sorted by their location and types of services they provide.
- Design a system for the monitoring and evaluation of publicly-supported BDS schemes that includes a bi-annual (monitoring) survey of SMEs to track the supply, use and quality of BDS provision nationwide, including client satisfaction surveys.

Notes

[1] "5S" refers to a standard, systemised 5-step continuous improvement process that involves going through everything in a space and deciding what is necessary and what is not (Sort); organising – a place for everything, everything in its place ("Set in order"); keeping the workspace clean ("Shine"); and setting up procedures for performing these tasks on a regular basis ("Standardise" and "Sustain").

[2] The online e-learning system of Ha Noi TAC can be consulted at https://vietnamsme.gov.vn.

[3] Based on information from the list of "focal points to help SMEs locally" and the list of "business support centres" on the National SME Support Portal.

[4] The Ha Noi SME Support Centre supports enterprises through training (on quality human resources, cleaner production, Kaizen management, new technology, e-commerce, and online marketing) and contracting of domestic and foreign experts to improve the production and export capacity of handicrafts and supporting industries. The centre also supports external market promotion activities via: 1) training businesses on the use of effective marketing tools; 2) organising and supporting the participation of SMEs in specialised trade fairs overseas; and 3) facilitating connections and information exchange with foreign professional organisations and associations.

[5] The consultancy fees of qualifying SMEs and projects can be subsidised according to the size of the enterprise and the project: 100% subsidy for a consultancy contract to a micro-enterprise, for not more than VND 3 million per year; 30% subsidy for a small enterprise, not exceeding VND 5 million per year; and 10% subsidy for a medium enterprise, not exceeding VND 10 million per year.

[6] The pilots in Ha Noi and Ho Chi Minh City focused mainly on mapping public organisations because they are the major providers of BDS support to SMEs. In replication of the project in other locations, the mapping should include private BDS providers as well.

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OECD Studies on SMEs and Entrepreneurship

SME and Entrepreneurship Policy in Viet Nam

This publication presents the findings of the OECD review of *SME and Entrepreneurship Policy in Viet Nam*. It offers an in-depth examination of the performance of small and medium enterprises (SMEs) and entrepreneurship in Viet Nam, the quality of the business environment, and national policies in support of new and small businesses. The report shows that Viet Nam is one of the most globally integrated economies in the world, building its solid growth performance on the attraction of foreign direct investments and export promotion. Viet Nam's business environment has considerably improved in recent years, although important reforms are still needed in certain policy areas. Viet Nam's SMEs contribute to national employment and national GDP proportionally less than in the OECD area, although official statistics do not take into consideration the large informal sector that mostly consists of self-employed people and micro-enterprises. Viet Nam's SME and entrepreneurship policies are relatively new, dating back to the early 2000s. In this respect, the 2018 SME Support Law is an important milestone which may help address some of the challenges that are holding back the development of a more vigorous domestic enterprise sector. Key policy priorities in this regard, building better business linkages between multinationals and local enterprises and stronger business development services, are the subjects of two thematic chapters of the report.

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