

BỘ KẾ HOẠCH VÀ ĐẦU TƯ
CỤC PHÁT TRIỂN DOANH NGHIỆP
MINISTRY OF PLANNING AND INVESTMENT
AGENCY FOR ENTERPRISE DEVELOPMENT

SÁCH TRẮNG
WHITE PAPER

**DOANH NGHIỆP NHỎ VÀ VỪA
VIỆT NAM**

ON SMALL AND MEDIUM SIZED ENTERPRISES
IN VIET NAM

2009

Hà Nội 2010

WHITE PAPER
ON SMALL AND MEDIUM
ENTERPRISES IN VIETNAM

2009

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Võ Hồng Phúc

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*L*ời tựa

Cùng với sự lớn mạnh của đất nước, doanh nghiệp nhỏ và vừa (DNN&V) giữ vai trò ngày càng quan trọng đối với kinh tế - xã hội Việt Nam. Nhận thức được vai trò này, Chính phủ coi phát triển DNN&V như một trong những nhiệm vụ then chốt.

Theo quy định tại Nghị định 116/2008/NĐ-CP ngày 14/11/2008 quy định chức năng, nhiệm vụ, quyền hạn và cơ cấu tổ chức của Bộ Kế hoạch và Đầu tư và Nghị định 56/2009/NĐ-CP ngày 30/6/2009 về trợ giúp phát triển DNN&V, Bộ Kế hoạch và Đầu tư giữ vai trò là cơ quan đầu mối về chính sách và các vấn đề liên quan đến phát triển DNN&V của cả nước. Trên cơ sở đó, Bộ Kế hoạch và Đầu tư xây dựng Sách trắng DNN&V 2009 như một ấn phẩm công bố các thông tin về khu vực DNN&V, góp phần quan trọng trong việc thực hiện các quy định nói trên.

Sách trắng DNN&V năm 2009 được xây dựng dựa trên các văn bản quy phạm pháp luật điều chỉnh DNN&V trong thời gian gần đây và các số liệu thống kê trích dẫn từ Tổng cục Thống kê và các Sở Kế hoạch và Đầu tư 63 tỉnh, thành phố. Sách trắng DNN&V năm 2009 cung cấp những nội dung quan trọng như những chính sách và quy định mới trong năm 2009; số liệu thống kê số lượng DNN&V Việt Nam; quy mô vốn, lao động, ngành nghề kinh doanh của doanh nghiệp; và các hoạt động hỗ trợ phát triển DNN&V vượt qua khó khăn trong bối cảnh suy thoái toàn cầu... Sách trắng được xuất bản nhằm góp phần nâng cao nhận thức hơn nữa về tầm quan trọng của khu vực DNN&V, tạo khung thống nhất trong triển khai biện pháp hỗ trợ DNN&V, góp phần thực hiện tốt nhiệm vụ phát triển kinh tế-xã hội theo mục tiêu đặt ra.

Chúng tôi xin chân thành cảm ơn sự giúp đỡ, hỗ trợ của các đơn vị trong và ngoài Bộ Kế hoạch và Đầu tư, các Sở ban ngành, Ngân hàng Phát triển Châu Á cũng như các tổ chức, cá nhân khác trong quá trình biên soạn cuốn Sách trắng DNN&V năm 2009 này.

Chúng tôi rất mong nhận được ý kiến đóng góp từ phía độc giả, mọi ý kiến đóng góp xin gửi về địa chỉ:

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Foreword

Together with the growth of the country, Small and Medium Enterprises (SME) play a more and more important role in the socio-economic development of Viet Nam. Having been fully aware of this, the Government sees SME development as one of the key mandates.

As regulated by Decree No. 116/2008/ND-CP dated November 14, 2008 on functions, tasks, authorities and organizational structure of the Ministry of Planning and Investment (MPI) and Decree No. 56/2009/ND-CP dated June 30, 2010 on supporting SME development, MPI acts as the focal body in policies and issues relating to the SME development throughout the country. Therefore, MPI develops the SME White Paper 2009 in order to have a publication aiming at disseminating essential information about SME sector, playing an important part in realizing the above-mentioned regulations.

The SME White Paper 2009 are based on recent SME-related legal normative documents and statistics from General Statistics Office and the 63 provinces' and cities' Department of Planning and Investment. SME White Paper 2009 contains crucial features such as: new policies and regulations in 2009; enterprises statistics in Vietnam; capital size, employment, business lines, and SME development activities for overcoming difficulties in the global economic recession, etc. The White Paper is published to further raise awareness on the importance of the SME sector; creating unified framework for SME development in order to contribute to the fulfillment of socio-economic development targets.

We would like to express our sincere appreciation and gratitude to units inside and outside MPI, relevant departments/agencies and the Asian Development Bank as well as other organizations and individuals who extended their kind contribution and support in publishing this SME White Paper 2009. We welcome all comments and recommendations from readers, please send your comments to the following address:

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ABBREVIATIONS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economy Cooperation
APBSD	ASEAN Policy Blueprint For SME Development
ASEAN	Association of South East Asia Nations
AusAID	Australian Agency for International Development
BDS	Business Development Services
BOT	Build, Operate, Transfer
CPN	Cross-border Production Network
DANIDA	Danish International Development Agency
DFID	Department For International Development (UK)
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
EU	European Union
GDP	Gross Domestic Product
GMS	Greater Mekong Subregion
GPN	Global Production Network
VAT	Value Added Tax
GTZ	German Agency for Technical Cooperation
ICT	Information and Communication Technology
IFC	International Finance Corporation
IZ	Industrial Zone
IT	Information Technology
ODA	Official Development Assistance
OECD	Economic Co-operation and Development
SMEMM	APEC SME Ministerial Meeting
SMEWG	SME Working Group
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
WB	World Bank

INTRODUCTION

1. Since the economic reform began in 1986, Vietnamese enterprises, of which the majority are small and medium sized enterprises (SMEs), have shown tremendous capability to create, renovate, develop and grow over the last couple of decades. Their success has spurred strong growth in employment, incomes and living standards. And this has contributed to unprecedented reductions in poverty.

2. The challenge for the next decade (2011-2020) is to sustain and build on what has been achieved. Despite progress poverty remains a concern, and average income levels remain low. Other countries continue to innovate, reform and become more competitive. Vietnam cannot afford to be satisfied with the impressive results already achieved.

3. The Government wants to understand better from businesses where businesses see the greatest investment opportunities in the coming decade, and to learn what actions the Government can take to help businesses achieve that objective. In what ways can the Government work with business to help realize the tremendous potential of Vietnamese enterprises to continue innovating, creating, and competing nationally and in international markets.

4. Thus, Enterprises Development Agency has prepared this 2009 White Paper on SMEs of Vietnam with the aim to:

- Review what has been achieved by business enterprises in recent years, based on the most updated statistical data.
- Better understand the constraints and opportunities facing Vietnamese SMEs, and to develop a prioritized action plan to address these concerns.
- Develop a shared vision about the future direction of business development, including linkages between SMEs, larger firms and foreign invested firms.
- Build public awareness of the contribution of Vietnamese SMEs to economic development and poverty reduction.

5. 2009 White Paper on SMEs of Vietnam was prepared by the Enterprises Development Agency and General Statistics Office's staff with the cooperation of consultants of Asian Development Bank (ADB). The study team studied regional and international experience to see what lessons from this experience might be applied in Vietnam, and also to understand the changing global environment for business development.

6. This 2009 White Paper on SMEs includes 4 main sections as follow:

- Section 1: The overall environment for SMEs development;
- Section 2: SMEs in Vietnam;

- Section 3: Facilitating SMEs development;
- Section 4: Prospect of SME sector.

7. Enterprise Development Agency highly appreciates the leadership and direction provide by the MPI leaders, comments and suggestions of its colleagues and the support of Asian Development Bank's consultants. As this is the first White Paper on SMEs of Vietnam, mistakes are unavoidable. Any comment or suggestion is kindly requested to send to the following address:

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SECTION I - OVERALL ENVIRONMENT FOR SMEs DEVELOPMENT

8. The last three years (2007-2009) have been particularly turbulent for Vietnamese businesses. Vietnamese SMEs have faced a WTO fuelled boom, a rapid overheating of the economy, a credit crunch, a bursting of the stock market and property bubbles, and an unprecedented global crisis over the last 10 years resulting sharp reductions in international trade. This is the most challenging time for Vietnamese SMEs since this sector began to emerge in the 1990s. This section of the report discusses the main development and the impact on the development of Vietnamese SMEs.

9. In 2007, many researchers as well as SMEs had initial concerns about their capability to respond to the challenge of becoming WTO's member. The immediate post-WTO period, however, was marked by strong growth and a boom in capital inflows as well as in trade, investment and employment. During this immediate post-WTO period, until early 2008, Vietnamese businesses had relatively easy access to debt and equity finance. There was particularly strong growth in lending by the new joint-stock banks.

10. There was dramatic increase in foreign inflows, and in domestic credit growth. Portfolio investment alone jumped from 1.3% of GDP in 2006 to 6.2% in 2007, despite little change in economic fundamentals and continuing weaknesses in corporate governance. Rapidly increasing levels of capital were chasing limited investment opportunities in a business environment with weak enforcement of corporate governance standards. Rapid growth in investment and domestic consumption, combined with sharp rises in international commodity prices (including food grain prices) led to a resurgence of inflationary pressures, increased labor costs, shortages of skilled labor, and rapid increases in stock and property prices.

Table 1 - Key macro indicators

Indicator	2005	2006	2007	2008	2009
GDP growth (% p.a.)	8.4	8.2	8.5	6.2	5.32
Inflation (change in CPI, % p.a.)	8.3	7.5	8.3	23.1	6.9
Credit Growth (% p.a.)	31.7	25.4	53.9	25.4	37.7

Source: IMF to 2008, 2009 data by GSO

11. The Government responded to the overheating of the economy by credit tightening. The State Bank of Vietnam has tightened monetary supply and increased interest rates. These policies and the global economic crisis contributed to a cooling of the economy and slowing inflation from 2008, and a bursting of the property and stock market bubbles (see following graph) from the later part of 2007. There have been some signs of a recovery in the stock market since Q2 2009, but prices remain well below peak 2007 levels. The property market has remained relatively flat during 2009, but there have been signs of some recovery in construction activity.

Table 2 –VnIndex in the last 5 years: 2004-2009



Source: <http://www.vietnammarkets.com/chart.php?sym=HOSE&ti=5y> (dated 24/9/2009)

12. The global economic crisis began to impact on the economy of Vietnam. The net result has been a marked slowing in economic growth from 8.5 % in 2007, to 6.2% in 2008, and to 5.32% in 2009. Some smaller firms, especially household firms, engaged in handcraft, furniture and garment sub-contracting are believed to have been particularly adversely affected by the slowdown, but there is limited timely data to accurately assess the distribution of impacts of the downturn. The slowdown has shown the importance of more timely data on business investment, employment and output to assist policy makers to better respond to economic challenges as they emerge.

13. Vietnam has actively encouraged economic integrations joining the WTO in early 2007, and actively participating in ASEAN and APEC initiatives. This integration has brought substantial benefits as evidenced by recent rapid growth in exports, incomes and employment. But the integration also leaves Vietnamese businesses vulnerable to global developments. The ongoing global crisis has impacted on Vietnamese businesses, especially Vietnamese SMEs.

14. The crisis has led to reduced export growth and slowing foreign investment inflows. Reduced overseas remittances, lower commodity prices and slowing tourism growth also present challenges. Many SMEs are finding it even more difficult to raise finance, there has been a decline in the construction industry, export demand is weakening, and some SMEs are struggling to remain solvent. In this context, the Government has introduced a stimulus package which aims to assist SMEs to survive current difficult circumstances. While growth has slowed substantially, Vietnam has so far been relatively less adversely affected by the global crisis than some of its regional neighbors. Growth in domestic consumption remained relatively strong, and this has helped reduce potential adverse impacts for many SMEs, especially SMEs engaged in the export of wooden furniture, handicrafts, embroidery and handicrafts

have been some of the worst affected by the crisis¹. With increased global constraints on the availability of external capital inflows, the role of private domestic investment and tax revenue is more important.

15. The challenge is to respond effectively to the short-term crisis, while laying the foundations for future growth and development, in a rapidly changing global and regional environment. With limited resources, it is increasingly important for the Government to act to ensure more efficient use of funds to ensure accelerated and sustainable development of domestic firms. Key positive developments include the reduction in inflationary pressures and macroeconomic imbalances. More needs to be done to ensure that public and private funds are used more effectively to provide the human skills and physical infrastructure needed for Vietnamese firms to compete effectively.

16. The Government has taken steps to stimulate economic activity, but faces financing constraints. In late 2008, the Government issued Resolution 30/2008/NQ-CP aimed at maintaining economic growth and stability in Vietnam. The resolution included a strong focus on supporting SMEs to adapt to the international economic downturn. Subsequently, the Ministry of Finance issued a circular 03/2009/TT-BTC dated 13/01/2009 providing detailed information on support to SMEs that include a tax reduction of 30% in the 4th quarter 2008 and for the entire year of 2009. Enterprises that engage in the production and/or processing of agriculture, forestry, or aquaculture products; textile and garment; leather and footwear industry; and electronic components, are entitled to delay 2009 tax payment by up to 9 months. The Government has also stated provided subsidized credit to domestic businesses through the commercial banking system. The Government has also introduced a targeted program to meet the needs of the most vulnerable groups.

17. The Government has signaled that it tends to accelerate efforts to improve the business environment to attract investment in difficult times. The Government has proposed amendments to the laws on Investment, Enterprise, Land, Bidding, Construction, and Corporate Income Tax. The purposes of moving forward on these proposed amendments are to improve investment conditions in Vietnam and to formulate policies that will help Vietnam survive the global economic crisis. The May/June and October 2009 National Assembly session stressed the important need for the Government to continue to monitor global impacts, and to take appropriate action to minimize adverse impacts.

18. A more positive trend is Vietnam's growing integration into *global production networks (GPNs)*. GPNs are reshaping international manufacturing and business. GPNs and regionally dispersed specialization is an increasingly distinctive feature of East Asian development. Trade in components has been growing faster than trade in conventional final-goods. East Asia is more dependent on this new form of international specialization than North America and Europe².

¹ Source: Meetings with VCCI and the SME association. Oxfam GB has conducted some case studies of the impact of the global economic downturn on a small number of craft villages and industrial zones in north and south Vietnam, focusing in particular on labor.

² Athukorala (2006) argues that this has been "the outcome of the relatively more favourable policy setting for international production, agglomeration benefits arising from the early entry into this new form of

19. More Vietnamese firms are reaching the scale needed to work with foreign multinationals. Many multinational firms, ranging from Ikea (wooden furniture), Unilever (consumer goods), and Honda (car and motor-bikes) are actively trying to develop local suppliers and distributors³. Such companies work closely with local firms to develop management systems to ensure the consistent quality required in international markets. The cost pressures facing multinationals in higher income countries are being exacerbated by the current global crisis, and may force them to accelerate efforts to develop domestic producers to help reduce production costs. Regional economic cooperation initiatives (e.g. AFTA and GMS) are providing new opportunities for Vietnam to participate in Cross-border production networks (CPNs).

20. Vietnam has made initial progress in tapping into GPNs but there are significant opportunities for a much stronger integration into these networks. Increased participation in GPNs could provide improved market access, and access to the technological, managerial, and market-related know how of leading international businesses. However to enter these value chains and benefit from these opportunities greater efforts is needed to improve management skills, management systems, and to improve the reliability and ability of Vietnamese producers to regularly provide consistent quality goods and services. Improvements in education and training will be critical to maximize the potential benefits to Vietnam.

21. Another key global development is the rapid development of *information and communication technology* (ICT) which is greatly reducing information costs, and the emerging importance of knowledge as an important engine of economic growth (the “knowledge economy”). A key element of the knowledge economy is the rapidly changing information and skills sets and labor flexibility needed, and thus the increasing importance of life-long learning. In the rapidly changing international economy, the Government needs to facilitate access to low cost information (especially the internet) and to lifelong learning, while also focusing on developing national education systems to meet the new skills needed in the knowledge economy⁴. Vietnamese firms will increasingly access technology, know-how, markets and finance via the internet. Innovation is needed to respond to changing needs. International good practices suggest that the Government should aim to facilitate the development of a national innovation system that links businesses (including SMEs), business associations, research institutes/think tanks, and universities that work together to access, adapt and transfer the growing stock of global knowledge to facilitate domestic business expansion.

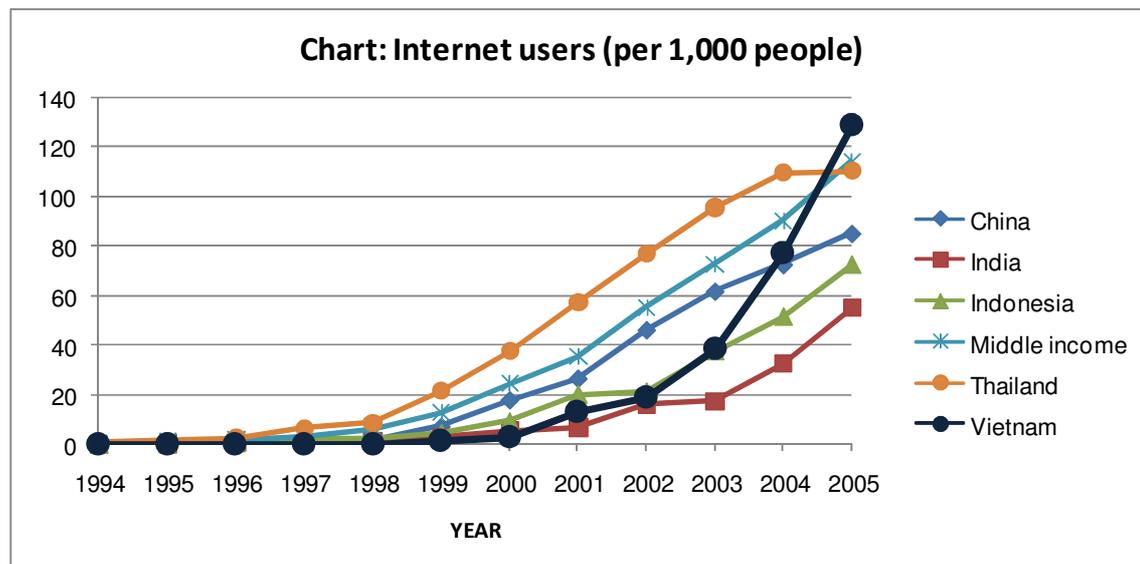
22. Vietnam has recorded remarkably rapid progress in adapting and adopting new technology (see the following graph showing Vietnam’s dramatic catch-up in internet use as an example). Vietnamese have demonstrated a great interest in, and capability to effectively utilize information technology. There are opportunities to build on this comparative advantage. Greater effort to incorporate information technology training

specialization, and considerable inter-country wage differential in the region.” Prema-chandra Athukorala. 2006. Multinational Production Networks and the New Geo-economic Division of Labour in the Pacific Rim. <http://rspas.anu.edu.au/economics/publish/papers/wp2006/wp-econ-2006-09.pdf>

³ Other major firms engage in GPN activities in Vietnam include Canon, Compal, CP Group, Fujitsu, Hong Hai (Foxconn), Intel, Matsusita, Nidec, Panasonic, Sanyo, Sony, and Toshiba.

..... facilitate the effective communication, dissemination, and processing of information, and; (iv) an efficient innovation system of firms, research centres, universities, consultants, and other organizations.....

in schools, vocational training programs and universities will be important in helping Vietnam build on its comparative strengths in information technology.



Source: World Bank, 2008. World Development Indicators.

23. There is also growing global and domestic demand for production systems to comply with more stringent safety (especially food safety), environmental and other social responsibility (e.g. labor) standards. SMEs need access to information about these standards and the processes need to meet these standards and secure certification of compliance with relevant standards. Government efforts to respond to these needs are being addressed under several initiatives, including the ‘Beyond WTO’ program (which is being supported AusAID and DFID). Efforts to improve quality and compliance standards remains an important national priority.

24. The global restructuring resulting from the recent economic downturn will provide new opportunities for Vietnamese firms. Global manufacturing and other firms have reduced production capacity in higher income and/or lower productivity countries in response to reduced global demands and reduced profitability. Demand is likely to recover, and firms will have to re-build and further expand capacity. Some major global firms will be looking for lower cost alternative locations for meeting this demand. Such firms will be looking for lower cost structures, but also a productive and skilled workforce, consistent quality standards, efficient and low cost transport/logistics services, strong IT services, reliable power supply and other infrastructure, social stability, and increasingly social and environmental safeguards and standards.

25. In order to respond to this opportunity, the Government needs to remain focused on the medium-term need to develop and improve the public services and infrastructure needed to encourage business investment in increasingly higher value added goods and services. Greater efforts will be needed to improve the efficiency of public investments, and also to develop and enabling environment to attract increased private investment in the provision of public services and infrastructure. Every effort needs to be made to accelerate actions to address priority bottlenecks to increased

business investment, including more reliable supply of power, more efficient transport logistics, and improvements in management and technical skills.

26. The contribution of private sector to the socio-economic development of Vietnam is substantial. The key to poverty reduction is increased employment and incomes. Vietnam has recorded sustained moderate to strong economic growth for almost two decades, albeit with bouts of economic instability. Sustained and relatively equitable growth in employment and income has helped to reduce poverty incidence from about 58.1% in 1993, to an estimated 15.4% in 2008. This success is largely attributable to sustained and relatively balanced business-led growth in output and employment, complemented by targeted poverty reduction interventions. The private sector was responsible for nearly all new jobs created between 2000 and 2008.

SECTION II – SME SECTOR IN VIET NAM

2.1. SME SECTOR IN VIET NAM

2.1.1. NUMBER OF ENTERPRISES

2.1.1.1. Number of registered enterprises, enterprises in active, and dissolved enterprises

27. Currently, statistical data on number of enterprises in Vietnam can be divided in two categories:

- Data on registered enterprises; and
- Data on enterprises in active.

The Enterprise Development Agency provides statistical data on registered enterprises, while data on enterprises in active is issued by the General Statistical Office based on the annual enterprise survey. Enterprises in active are those paying taxes in a year from the database provided by the tax agencies.

28. In this report, small & medium sized enterprises (SMEs) are defined according to Decree No. 90/2001/ND-CP dated November 23, 2001 of the Vietnamese Government. Accordingly, an SME in Vietnam is defined as any independent production and business establishment that has either a registered capital not exceeding VND 10 billion (about US \$600,000) or an annual average number of permanent labors not exceeding 300. Decree No. 90/ND-CP was then replaced by Decree No. 56/2009/ND-CP on SME support issued on 30 June 2009. At the time of writing this report, statistic office did not have enough time to update the data on SME according to Decree 56/ND-CP which was just issued in June 2008. The figures and data used for analysis in this report, therefore, are based on Decree No. 90/ND-CP in 2001.

29. In fact, most of the enterprises established in accordance with the Private Enterprise Law, the Company Law, and Decree No. 50/HDBT are considered SMEs. During period between 1991 and 1999 with the implementation of these three legal documents, there were 47,158 registered enterprises (including both cooperatives and enterprises belongs to political and social organizations). During the implementation of the Enterprise Law 1999, the Enterprise Law 2005 and the State Enterprise Law from 2000 to 2009, the whole country had almost 394 thousand registered enterprises (see Table 1). In total, there have been more than 440 thousand enterprises established and registered in Vietnam in the last 18 years.

Table 3: Number enterprises registered in the 2000 -2009 period

Year	Number of registered enterprises	Accumulated number
2000	14,457	14,457
2001	19,800	34,257
2002	21,535	55,792

Year	Number of registered enterprises	Accumulated number
2003	27,771	83,563
2004	37,230	120,793
2005	39,959	160,752
2006	46,606	207,358
2007	58,196	265,554
2008	65,318	330,872
2009	82,000	412,872

Source: Enterprise Development Agency.

30. In 2000-2009 period, the number of registered business increase 22.1% per year on average. During this period, a significant increase was observed in 2000-2001 (an increase of 37%), 2003-2004 (34%) and 2008-2009 (29%).

31. In 2008 and 2009, in spite of difficulties caused by global economic crisis, number of newly registered enterprises continued to rise. The number of newly registered enterprises in 2008 increased by 12.2% in comparison to that of 2007, and number of newly registered enterprises in 2009 increased 29.5% in comparison to that of 2008.

32. Data on business registration from 63 cities and provinces (look at Table 8) showed the following tendency in the country's new enterprise establishment:

- Ha noi and Ho Chi Minh are always leading cities in terms of number of business start-ups and value of registered capital as well, which accounting for 50% out of established business (13,000 newly registered enterprises in Hanoi and 20,000 in Ho Chi Minh City) and 42% of total capital in 2008. The two cities are classified into Group 1.
- Besides Group 1, The 2nd group includes more developed cities such as Hai phong, Da nang, Binh Duong, Dong Nai and Ba Ria Vung Tau which have between 1.000 to 3.000 registered enterprises in 2008. These cities and provinces could be classified into Group 2.
- The number of business start up in 4 poor provinces in the Northern mountainous areas such as: Cao Bang, Bac Kan, Dien Bien, and Lai Chau is fewer than 100. The remained underdeveloped provinces in the Northern mountainous and South region (Son La, Yen Bai, Ha Giang, Bac Lieu, Tra Vinh, and Ninh Thuan) each had 100 to 200 newly established enterprises. They are classified into Group 3.
- This difference partly reflects the gap on economic development among regions. However, the gap remains too significant (the Group 1 was 10 times higher than Group 2, and the Group 2 was 10 times higher than Group 3 on average). Given that the population of provinces in each group did not vary

noticeably, this gap possibly caused by the difference in awareness on market entry of each group⁵.

- With the exception of Thừa Thiên Huế, 10 localities with the highest number of private business registered in 2008 all came from the South (Ho Chi Minh City, Dong Nai, Kien Giang, Binh Duong, Khanh Hoa, Tay Ninh, Ba Ria Vung Tau, Can Tho and Long An). This fact somewhat reflected the difference in business culture among regions. Level of personal commitment, shown in business spirit and employer-employee relationship, in this provinces was significantly higher than in other cities and provinces.
- The number of joint stock companies registered in Ha Noi was twice as many as that of Ho Chi Minh City, while Ho Chi Minh City had 2.5 times higher than the number of limited companies than Hanoi. The fact that the number of newly registered limited companies was 2.5 times higher than the number of newly registered joint stock companies proved that the equity financing approach was not well developed, just at the beginning stage of application in Hanoi (showing through a slightly higher number of joint stock companies comparing to limited companies).

33. According to the 2006 - 2008 enterprise survey conducted by the General Statistics Office, by December 31, 2007, there are total 155,771 enterprises in active nationwide, most of which are non state enterprises. There are 3,494 enterprises (accounting for 2%), 147,316 non-state enterprises (94%), and 4,961 FDI enterprises (3%).

34. The GSO's data on the number of enterprises in active compared with the number of registered enterprises is considered reasonable. Accordingly, the number of registered enterprises recorded as of December 31, 2007 was 312 thousand enterprises. Thus, there were *about 50% of registered enterprises in active in 2007*.

35. According to the General Tax Department, by December 31, 2008, there are more than 303 thousand enterprises paying taxes. In the meantime, the number of registered enterprises at that time was more than 378 thousand. Thus, *the percentage of active existing enterprises compared to registered enterprises after 18 years was 80.2%*. This percentage in OECD countries was of 60% – 70% after 2 years and 40% – 50% after 7 years of operation. Therefore, the use or reference to enterprises data from different sources should be done carefully with clear explanation.

36. Generally, enterprises have grown in 2007 in comparison to 2006. Industries and mining industry, transportation and storage, scientific and technological activities, and other economic activities in property business, consultation services, personal and community services, all saw a high increase of 20%. The groups of processing industry, construction, trade, hotels and restaurants gained an increase of 15%. Only 4 groups experienced a decrease in growth rate: aquaculture, credit and finance, education and training, and private household employment (see Table 4).

⁵ Hồ Chí Minh City – the highest populous city among the above groups, with a population of 22 times higher than Bắc Kạn – the smallest populous province, possessed a number of enterprises registered in 2008 of 274 times higher than that of Bắc Kạn.

Table 4: Numbers of enterprises, by the end of the year

No.	Industry	2006	2007	Change 2007/2006 (%)
1	Agriculture and Forestry	1,092	1,151	+5.4
2	Aquaculture	1,307	1,296	-0.84
3	Mining	1,369	1,692	+23.59
4	Processing	26,863	31,057	+15.61
5	Electricity, gas and water generation and distribution	2,554	2,804	+9.79
6	Construction	17,783	21,029	+18.25
7	Trade, repair of motor-vehicles, motor-bikes, household goods	52,505	61,525	+17.18
8	Hotels and Restaurants	5,116	6,062	+18.49
9	Transportation and Storage	7,695	9,858	+28.11
10	Finance, credit	1,671	1,494	-10.59
11	Scientific and Technological activities	33	54	+63.64
12	Activities in property business and consultation services	11,050	15,219	+37.73
13	Education and Training	785	721	-8.15
14	Health and social relief works	256	344	+34.38
15	Culture and Sports	561	584	+4.10
16	Community, social and personal services activities	670	878	+21.04
17	Private household employment	8	3	-62.5

Source: Status of Enterprises in a 2006 – 2008 Survey, Statistical Publishing House, 2009.

37. Data regarding dissolved enterprises was not fully available due to the lack of information from cities and provinces. According to the data received from 36 central level cities and provinces, there were 3,029 enterprises dissolved in 2007, accounted for 6.5% of the year's registered enterprises. Ho Chi Minh City owned the highest number of dissolved enterprises of 1,220 in 2007, with total registered capital of more than 4 thousand billion VND. In 2008, the country witnessed the dissolution of 3,893 enterprises. Again, Ho Chi Minh City led the number of dissolved enterprises of 1,812.

2.1.1.2. Number of SMEs

38. Currently, there was no accurate data on the number of small, medium and large sized enterprises. Results of surveys showed that the majority of newly registered enterprises belong to SMEs.

39. According to the General Statistics Office, most of active enterprises are small and medium sized enterprises (in accordance with the classification criteria regulated in Decree 90/2001/ND-CP). Among 155,771 enterprises in active in 2007, there are 151,780 ones having between 5 to 299 employees (accounted for 97%), 131,888 enterprises have capital size of less than 10 billion VND capital (accounted for 84%). It can be said that SMEs made up an increasing percentage and always represented the majority of the active enterprises. Many State-owned enterprises and foreign

investment enterprises were in small and medium scale as well (with the percentage of 18% and 20%, respectively)⁶.

Table 5: Numbers of enterprises, classified by employees size

Size of employees	2005	2006	2007
Less than 5 employees	23,188	16,834	34,856
5-9 employees	34,632	57,980	51,041
10-49 employees	38,957	39,365	50,588
50-199 employees	10,933	11,677	13,333
200-299 employees	1,626	1,737	1,962
300-499 employees	1,555	1,525	1,694
500-999 employees	1,188	1,258	1,283
1,000-4,999 employees	801	861	928
5,000 employees and above	70	81	86
Percentage (%)			
Less than 5 employees	20.52	12.81	22.37
5-9 employees	30.66	44.15	32.76
10-49 employees	34.49	29.96	32.47
50-199 employees	9.67	8.89	8.55
200-299 employees	1.43	1.32	1.25
300-499 employees	1.37	1.16	1.08
500-999 employees	1.05	0.95	0.82
1,000-4,999 employees	0.7	0.65	0.59
5,000 employees and above	0.06	0.06	0.05

Source: The General Statistics Office – Status of Enterprises through 2001 - 2007 survey results.

2.1.1.3. The increase of multi-ownership enterprises

40. Data on business registration during period of 2000 – 2008 showed that the form of multi-ownership enterprises saw an increasing popularity. While in 2000 the number of limited and joint stock companies accounted for only 55% of the total registered enterprises, this percentage was 83% in 2007 and 86% in 2008, in which the number of registered joint stock companies increased from 5% to almost 26%.

2.1.2. CAPITAL SIZE OF THE ENTERPRISE SECTOR

Average registered capital per enterprise

41. Average registered capital per enterprise increased over the years, from VND 962 million in 2000 to VND 3.14 billion in 2006, equivalent to an increase of 3.2 times. The average registered capital per enterprise was VND 8.1 billion in 2007 and was VND 8.7 billion in 2008. Generally, the average capital size per enterprise increased 9 times during the period of 2000 to 2008.

42. Average registered capital per enterprises varies among regions. According to reports of Departments of Planning and Investment in 2008, Cuu Long River Delta region possessed the highest level of average registered capital (VND 23.8 billion per enterprise) and Northern Central region owned the lowest level of average registered capital (VND 5.45 billion). This was due to the establishment of some relatively large

⁶ Small and Medium Sized Enterprise Annual Report, 2008.

enterprises in Cuu Long River Delta region in the year 2008. However, the registered capital was declared by own enterprises, and the law does not require enterprises to prove that capital. Therefore, statistical data on registered capital should be considered with caution.

Table 6: Average registered capital per enterprise, classified by region in 2008

No.	Region	Average registered capital per enterprise (billion VND)
1	Red River Delta	8.82
2	North eastern region	7.50
3	North western region	6.18
4	North Central region	5.45
5	South Central Coastal region	6.04
6	Highlands	9.92
7	South eastern region	6.63
8	Mekong Delta	23.80

Source: Enterprise Information Center – Enterprise Development Agency

43. From regional aspects, the South east region has the highest number of registered enterprises (accounted for 39.78%) while Red River Delta has the highest registered capital amount (accounted for 32.41%). Western North was the region having the lowest number of registered enterprises and capital amount (accounted for 0.86% and 0.61%, respectively) (see Table 7).

Table 7: Percentage of registered enterprises and capital of regions in 2008

No	Region	% of registered enterprises	% of registered capital
1	Red River Delta	32.04	32.41
2	North eastern region	4.69	4.04
3	North western region	0.86	0.61
4	North Central region	4.70	2.94
5	South Central Coastal region	7.01	4.86
6	Highlands	3.06	3.48
7	South eastern region	39.78	30.26
8	Mekong Delta	7.82	21.36
9	The country as a whole	100%	100%

Source: Enterprise Information Center – Enterprise Development Agency

44. Long An was the locality with the highest average registered capital per enterprise (VND 119.9 billion) and Tuyên Quang was the lowest with VND 2.21 billion. Localities which have average registered capital per enterprise of more than 10 billion dong include Ninh Thuan (14.34 billion), Ha Tinh (12.46 b), Hau Giang (24,74b), Binh Phuoc (11,35b), Lam Dong (12.12b), Quang Ninh (10.8b), Ba Ria Vung Tau (10.48b). In 2007, Ba Ria Vung Tau is province who have the highest registered capital per enterprise (18.63 b) and Vinh Phuc is the lowest one (2.25b).

Table 8 below provides information on private sector in 64 cities and provinces.

Table 8: Number of enterprises and registered capital by legal form in 2008

No	Region	Private enterprise		Limited Liability Co		Shareholding Co		Partnerships		Limited Liability Co 1 member		State-owned Co		Total	
		Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital
1	Hanoi	189	1,160,544	3,805	10,397,143	7,068	113,013,281			2,258	18,407,875			13,320	142,978,843
2	Hai Phong	43	30,500	880	2,162,079	947	7,858,093			1,155	8,334,046			3,025	18,384,718
3	Ha Tay	46	42,600	314	814,622	328	3,230,463			145	789,557			833	4,877,242
4	Hai Duong	122	126,948	123	257,267	244	1,492,803			262	610,570			751	2,487,588
5	Hung Yen	84	79,729	132	315,870	132	2,070,038			165	458,494			513	2,924,131
6	Ha Nam	14	11,450	119	306,444	36	370,829							169	688,723
7	Nam Dinh	54	39,400	126	409,268	260	1,389,175			73	441,670			513	2,279,513
8	Thai Binh	87	36,710	130	382,315	88	552,380			53	178,905			358	1,150,310
9	Ninh Binh	142	219,523	79	359,211	51	940,454			62	248,626			334	1,767,814
10	Ha Giang	8	10,530	70	223,761	38	909,330			26	97,341			142	1,240,962
11	Cao Bang	20	42,250	34	129,960	18	506,480			11	45,400			83	724,090
12	Lao Cai	16	16,300	66	138,607	74	1,721,200			103	203,973			259	2,080,080
13	Bac Kan	24	23,318	26	80,805	23	371,150							73	475,273

No	Region	Private enterprise		Limited Liability Co		Shareholding Co		Partnerships		Limited Liability Co 1 member		State-owned Co		Total	
		Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital
14	Lang Son	27	21,060	49	107,380	48	410,946			33	54,020			157	593,406
15	Tuyen Quang	26	15,190	41	74,950	10	127,325			51	66,333			128	283,798
16	Yen Bai	43	41,471	28	174,250	55	370,790			32	51,100			158	637,611
17	Thai Nguyen	98	127,014	72	151,982	77	1,601,553			81	189,821			328	2,070,370
18	Phu Tho	31	94,180	165	335,473	155	2,349,392			75	298,316			426	3,077,361
19	Vinh Phuc	41	44,788	236	717,629	160	2,002,044			119	720,278			556	3,484,739
20	Bac Giang	17	9,370	107	337,018	78	787,915			143	247,476			345	1,381,779
21	Bac Ninh	34	50,490	258	1,088,760	143	1,503,950			121	972,234			556	3,615,434
22	Quang Ninh	99	113,363	305	673,375	413	4,031,446			150	5,635,015			967	10,453,199
23	Lai Chau	35	57,200	31	80,562	21	218,730			13	40,300			100	396,792
24	Son La	44	59,489	40	114,465	41	433,239			3	25,500			128	632,693
25	Hoa Binh	20	22,900	64	248,135	84	1,441,600			92	331,549			260	2,044,184
26	Thanh Hoa	95	82,363	456	1,599,361	213	3,900,242							764	5,581,966
27	Nghe An	207	153,281	275	479,000	348	3,164,268			111	165,073			941	3,961,622
28	Ha Tinh	37	51,350	89	488,319	104	2,326,360							230	2,866,029

No	Region	Private enterprise		Limited Liability Co		Shareholding Co		Partnerships		Limited Liability Co 1 member		State-owned Co		Total	
		Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital
29	Quang Binh	65	45,345	180	1,111,953	33	501,350			75	135,360			353	1,794,008
30	Quang Tri	46	31,739	30	101,725	47	630,168			148	159,655			271	923,287
31	TT-Hue	283	288,433	99	198,099	65	1,016,601			69	159,310			516	1,662,443
32	Da Nang	211	125,338	732	2,406,342	344	7,883,593			380	513,584			1667	10,928,857
33	Quang Nam	64	41,190	183	412,561	102	2,202,829			186	660,195			535	3,316,775
34	Quang Ngai	115	86,584	163	365,854	62	1,542,557			154	1,915,427			494	3,910,422
35	Binh Dinh	209	166,445	300	650,543	66	2,699,547			191	324,852	1	2104	767	3,843,491
36	Phu Yen	96	77,167	66	156,168	31	640,766			55	92,674			248	966,775
37	Khanh Hoa	253	218,770	259	1,024,148	91	3,011,830			269	495,226			872	4,749,974
38	Kon Tum	53	42,430	72	264,128	34	1,008,224			40	101,400			199	1,416,182
39	Gia Lai	146	197,874	69	236,030	47	3,036,997			139	272,127			401	3,743,028
40	Đak Lac	156	149,840	218	554,915	77	4,651,193			164	293,183			615	5,649,131
41	HCM city	1499	1,008,803	10,764	31,740,244	3,161	77,556,429			4,437	20,071,234			19,861	130,376,710
42	Lam Dong	168	172,866	362	1,667,970	75	5,495,613					1	13,393	606	7,349,842
43	Ninh Thuan	39	25,040	59	360,460	25	1,954,902			47	122,523	2	3,744	172	2,466,669

No	Region	Private enterprise		Limited Liability Co		Shareholding Co		Partnerships		Limited Liability Co 1 member		State-owned Co		Total	
		Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital
44	Binh Phuoc	122	198,800	143	582,370	64	3,898,318			154	807,069			483	5,486,557
45	Tay Ninh	244	254,298	151	596,280	33	1,173,900			86	1,779,200			514	3,803,678
46	Binh Duong	287	333,992	618	1,977,355	162	4,401,780			499	1,331,638			1,566	8,044,765
47	Dong Nai	473	567,792	787	3,016,395	139	1,678,711			433	1,889,471			1,832	7,152,369
48	Binh Thuan	128	132,915	173	752,160	62	2,853,221			155	330,537			518	4,068,833
49	BR-VT	241	288,925	349	1,829,929	170	7,527,225			284	1,304,519			1,044	10,950,598
50	Long An	236	230,685	245	1,690,851	116	95,066,157	1	1,000	217	784,470			815	97,773,163
51	Dong Thap	93	91,470	73	171,180	24	833,890			48	418,064			238	1,514,604
52	An Giang	142	175,376	154	805,834	34	1,070,589			148	929,065			478	2,980,864
53	Tien Giang	281	320,000	129	376,000	23	700,000			38	2,039,000			471	3,435,000
54	Vinh Long	123	142,569	76	310,844	23	341,920			73	254,465			295	1,049,798
55	Ben Tre	122	99,976	50	174,540	15	233,320			44	72,510			231	580,346
56	Kien Giang	448	268,627	170	779,424	49	2,806,659			49	188,000			716	4,042,710
57	Can Tho	239	192,845	303	906,836	113	2,287,295			184	709,861			839	4,096,837
58	Tra Vinh	36	42,105	35	70,364	11	114,428			34	38,764			116	265,661

No	Region	Private enterprise		Limited Liability Co		Shareholding Co		Partnerships		Limited Liability Co 1 member		State-owned Co		Total	
		Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital	Qnt	Capital
59	Soc Trang	121	136,750	36	140,098	15	299,150			52	101,551			224	677,549
60	Bac Lieu	67	65,670	15	89,490	14	181,417			25	46,920			121	383,497
61	Ca Mau	223	118,440	161	534,688	25	276,600							409	929,728
62	Dien Bien	29	43,991	14	25,695	26	286,452			7	58,130			76	414,268
63	Đak Nong	52	68,370	58	264,050	18	1,169,070			50	183,300			178	1,684,790
64	Hau Giang	82	69,680	33	142,337	17	3,694,900			28	52,747			160	3,959,664
		Total:	9,304,451	25,449	79,135,871	16,670	403,823,077	1	1,000	14,299	77,249,503	4	19,241	65,318	569,533,143

45. Among different types of enterprises, shareholding companies have the highest amount of average registered capital of 24.22 billion VND, while private companies own the lowest level of 1.046 billion VND (see table 9)

Table 9: Average registered capital size in 2008 by types of enterprises

No	Form of enterprise	Average registered capital per enterprise (billion)
1	Private enterprise	1.046
2	Limited Liability Company with more than 2 members	3.109
3	Limited Liability Company with 1 member	5.402
5	Shareholding company	24.22

Source: Business Information Center, EDA

46. Among 155,771 enterprises in active by December 31,2007, the number of enterprises with capital from 1 to 5 billion VND accounted for the highest proportion (46.44%), which is considered to be the most common capital size of business in Viet Nam. The number of Vietnamese enterprises which have capital size as equal to the average level in the world (>500 billion VND, approximate 27 million USD) is less than 1000 (shown in below table). By capital size, SME accounted for 84.66% of total business .

Table 10: Number of enterprise classified by capital size at year end 2007

Capital size	Number of enterprises	Percentage (%)
Less than 0,5 million VND	18,646	11.97
From 0,5 million VND to 1 million VND	23,631	15.17
From 1 million VND to 5 million VND	72,342	46.44
From 5 million VND to 10 million VND	17,269	11.09
From 10 million VND to 50 million VND	16,353	10.50
From 50 million VND to 200 million VND	5,286	3.39
From 200 million VND to 500 million VND	1,355	0.87
From 500 million VND and above	889	0.57

Source: "The Real Situation of Enterprises". Hanoi: 2006-2008, General Statistical Office

2.1.3. EMPLOYMENT IN CORPORATE SECTOR

48. In 2007, the number of employees in corporate sector increased by 656,994 employees against 2006⁷, or about 9%. The total employment in corporate sector generated in 2007 was about 7 million employees, in which non-SOE sector was the dominated source with 53.3% and 23.9% of SOE sector (in which nearly ¾ employees worked in central level SOEs, and above ¼ in local level SOEs), and 22.8% of foreign invested enterprises.

49. In 2007, female employees accounted for 44.2% of total employees in corporate sector. The highest ratio was 67.54% of foreign invested enterprises sector, followed by 33.74% of SOE sector and 38.55% of non-SOEs sector (in which 34.39% of private enterprise, 42.44% of partnership, 39.76% of non-state owned liability limited companies, 41.04% state owned joint stock companies, and 38.60% of non-state owned joint stock companies).

50. According to 2006-2008 survey conducted by the General Statistics Office, the average number of employees per enterprise was 47 employees in 2007 (declined 51 employees against 2006), in which the average number of employees/non-SOE was 27, well below compared with 505 of SOEs, and 340 of foreign invested enterprises. In non-SOE sector, the average number of employees/ private enterprise is 13 (equal to that in 2006), 12 of partnership (2006 was 16), 25 of liability limited companies (2006 was 27), 272 state owned joint stock companies (2006 was 270), and 43 of non-state owned joint stock companies (2006 was 41). The above data shows that most non-SOEs operate with small scale of employee size (12-41 employees), approximately 1/10 compared with that in foreign invested enterprises and 1/20 compared with SOEs; the reasons properly are the small scale of manufacturing, low management skill, small scale of business or all above three factors.

51. Employment growth accelerated marginally, from 2.2% per year from 1995 to 1999, to 2.6% per year from 2000 to 2007. Growth accelerated from 2000 to 2003, but has trended downwards since 2003. Employment in the domestic private sector grew by 2.3% per year from 2000 to 2007, while the State sector grew by 1.9% per year. FDI-sourced employment grew dramatically over this period (22.3% per year), as most of the increasing inflows for FDI were directed into labour intensive manufacturing (see Table 11).

Table 11: Employment Growth by Ownership

Unit: %

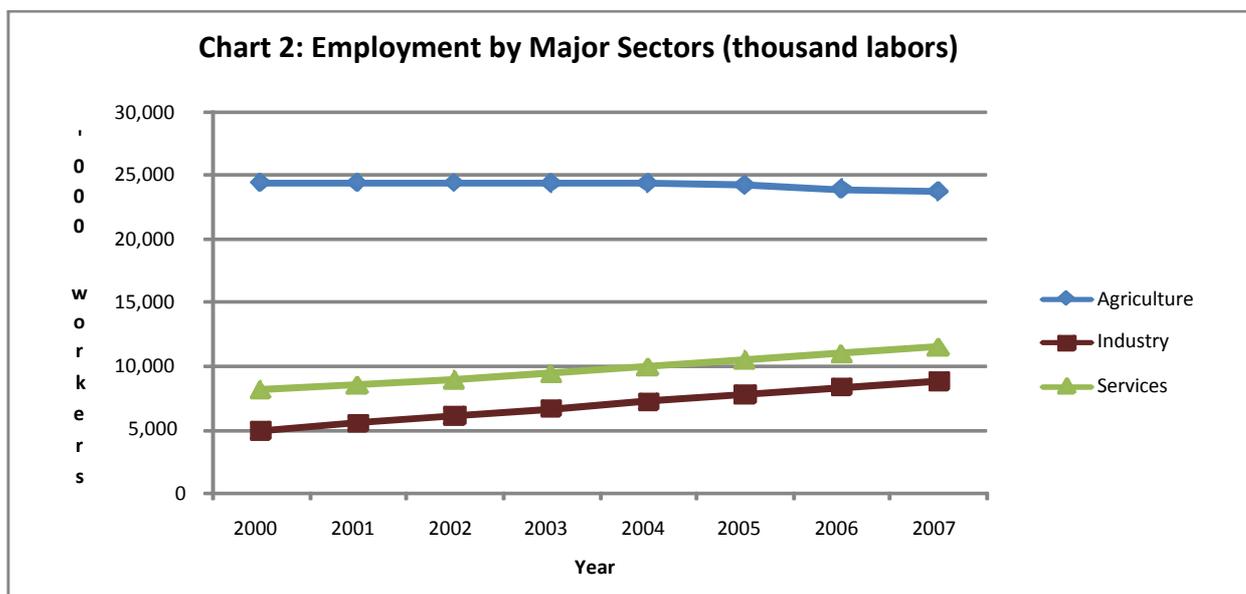
	1995-1999	2000-2007
Total Employment	2.2	2.6
State sector employment	3.2	1.9
Domestic Private Sector*	1.9	2.3
FDI employment	n.a.	22.3

Source: GSO Statistical Year Book. * 1995-1999 included FDI employment

52. In the trend of industrialization, total employment in agriculture is beginning to decline, as new entrants to the workforce are increasingly attracted to higher paying

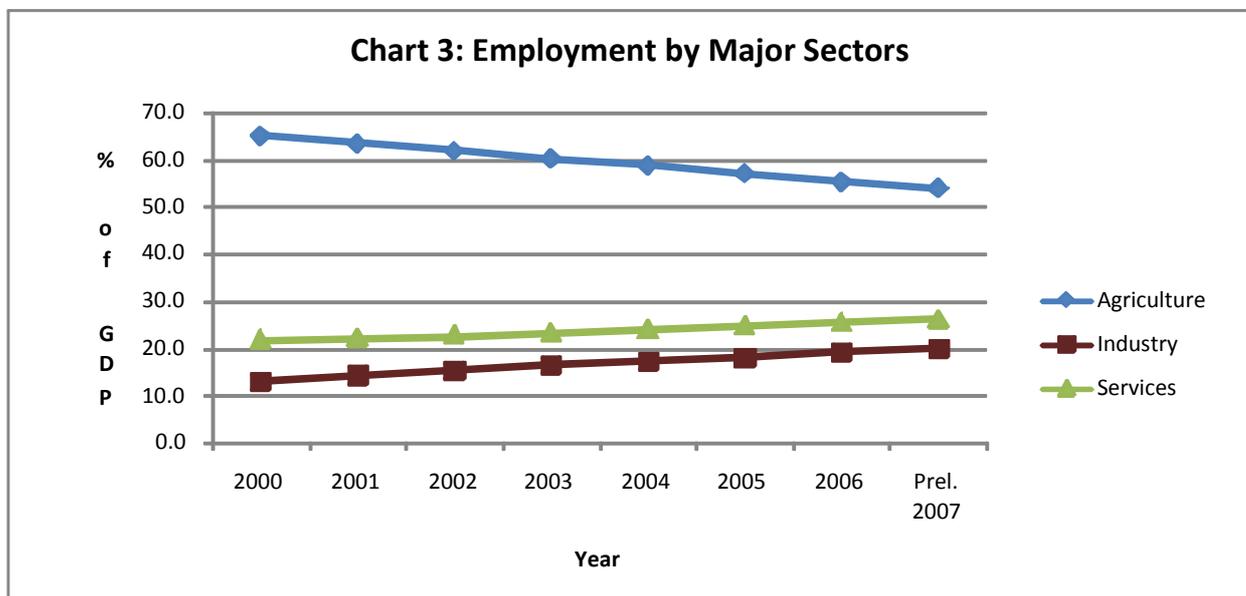
⁷ Source: GSO data

employment in industry and services. Employment growth in both the industry and service sectors has been relatively strong over the period 2000-2007 (see the below chart).



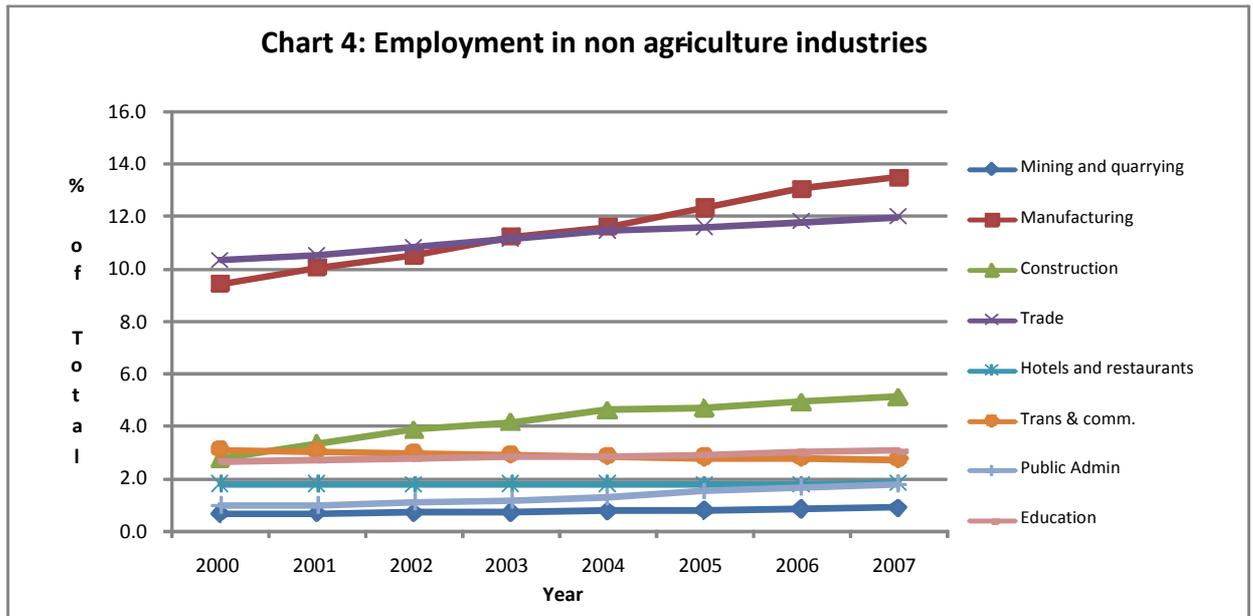
Source: GSO Data: www.gso.gov.vn

53. While agriculture's share of total employment has declined from 65% in 2000 to 54% in 2007, agriculture remains the dominant source of employment. Shares of industry and services in total employment have both increased substantially in recent years as shown in the Chart 3.



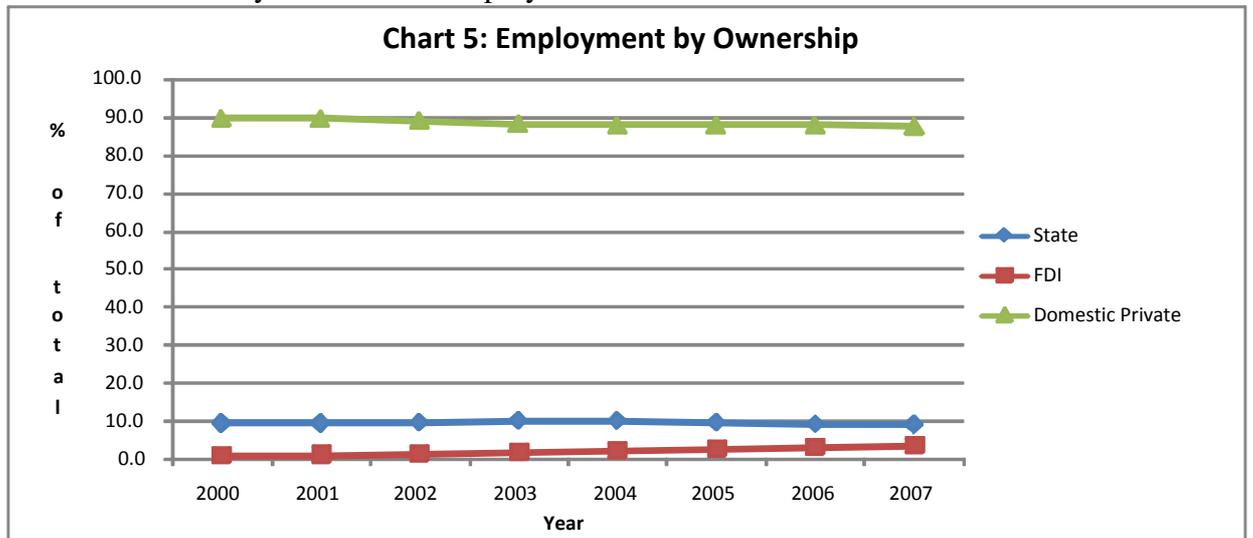
Source: GSO Data: www.gso.gov.vn

54. Strongest employment growth has been generated by the manufacturing sector (13.5% of the workforce in 2007, compared with 9.4% in 2000), and construction (5.1% of the workforce in 2007, up from 2.8% in 2000). There has also been strong employment growth in trade services, personal services, public administration and education and training. The share of transport services in total employment declined marginally.



Source: GSO Data: www.gso.gov.vn

55. In the period of 2000-2007, there was a marginal decline in employment shares recorded in the State sector (from 9.3% in 2000, to 9.0% in 2007), while the share of the workforce employed by the foreign investment sector has jumped sharply from 1.0% in 2000 to 3.5% in 2007. Private sector, however, remained the major source of employment, accounted for nearly 90% of total employment.



Source: GSO Data: www.gso.gov.vn

56. In the trend of employment shifting to industry and services, the proportion of enterprises with employment scale between 5 and 9 rapidly increased, from 25.8% in 2000 to 44.1% in 2006 and 33% in 2007. While the proportion of enterprises with employment scale less than 5 or above 10 employees declined or stayed unchanged. The proportion of enterprises have less than 5 employees declined from 24.5% in 2000 to 12.8% in 2006 and to 10% in 2007. The proportion of enterprises have 10-49 employees increased slightly (from 28.5% in 2000 to 30% in 2006 and 32.4% in 2007). The proportion of enterprises have 50-199 employees declined from 13.3% in 2000 to 8.9% in 2006 and 8.55% in 2007. Particularly, the proportion of enterprises have 200-299 employees declined more than a

half, from 2.7% in 2000 to 1.3% in 2006 and to 1.25% in 2007. Thus, the employment scale between 5 and 9 per enterprise likely the dominated trend in the development of Vietnamese enterprises, beside the scale between 10 and 49 employees.

Table 12. Number of enterprises, by employee size at year end 2007

Employee size	Number of enterprises	Percentage (%)
Less than 5 employees	34,856	22.376
5-9 employees	51,041	32.767
10-49 employees	50,588	32.476
50-199 employees	13,333	8.559
200-299 employees	1,962	1.260
300-499 employees	1,694	1.087
500-999 employees	1,283	0.824
1.000-4.999 employees	928	0.596
5.000 and above employees	86	0.055
Total enterprises	155,771	

Source: "The real situation of Enterprises 2006-2008", GSO: 2009.

57. By industry, the proportion of employees in manufacturing industry is the largest, followed by construction; trade; transportation and information; and other activities related to assets, consulting services (see the below table).

Table 13: Number of employees in enterprises, by industry at year end 2007

No.	Industry	2007	% to total employees
1	Agriculture and forestry	222,060	3.00
2	Aquaculture	31,273	0.42
3	Mining	186,673	2.52
4	Processing	3,773,533	51.11
5	Electricity, gas and water generation and distribution.	130,473	1.76
6	Construction	1,079,267	14.61
7	Trade, repair of motor-vehicles, motor-bikes, household goods.	808,667	10.95
8	Hotel and restaurant	141,104	1.91
9	Transportation, storage and Information	481,515	6.52
10	Finance	148,466	2.01
11	Scientific and Technological activities	1,236	0.01
12	Activities related to assets and consultation services	280,633	3.80
13	Training and education	14,854	0.20
14	Health and social relief works	10,606	0.14
15	Culture and sports	24,492	0.33
16	Community, social and personal services activities	47,288	0.64
17	Private household employment.	20	0.00027

Source: "The real situation of Enterprises 2006-2008", GSO: 2009.

58. Many enterprises had to reduce business scale and employee numbers due to the global financial crisis. In 2008⁸, 817 enterprises reported that 66,701 employees lost their jobs due to the impact of economic crisis, accounted for 16.26% of total employees working in the mentioned enterprises, in which 25.5% was female employees.

2.1.4. BUSINESS ACTIVITIES OF ENTERPRISES

59. It is a common fact in Vietnam that enterprises usually register many business activities though they just focus on some particular activities. It is difficult to have a reliable statistical data on the business activities of SMEs. It is estimated that 40% of enterprises run business in trading field, 21% in processing, 14% in construction (see the table 14). There was no significantly change in the distribution of enterprises by industry in the 2000-2007 period (see the table 14).

Table 14: Proportion of enterprises by industry in the 2000 - 2007 period

Unit: %

	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture and forestry	2.2	1.7	1.5	1.3	1.1	0.9	0.8	0.7
Aquaculture	5.8	5.0	3.8	2.0	1.5	1.2	1.0	0.8
Mining	1.0	1.2	1.4	1.4	1.3	1.1	1.0	1.1
Processing	24.6	23.9	23.5	23.5	22.4	21.3	20.5	19.9
Construction	9.5	11.0	12.5	13.5	13.4	13.5	13.5	13.5
Trade	41.5	40.1	39.4	39.4	39.3	39.5	40.0	39.5
Hotel and restaurant	4.5	4.7	4.5	4.6	4.3	4.2	3.9	3.9
Transportation	4.2	4.9	5.2	5.5	5.8	6.0	5.9	6.3
Other	6.7	7.5	8.2	8.8	10.8	12.2	13.4	14.3

Source: GSO - : "The real situation of Enterprises 2001-2007, 2006-2008, Statistical Publishing House 2007.

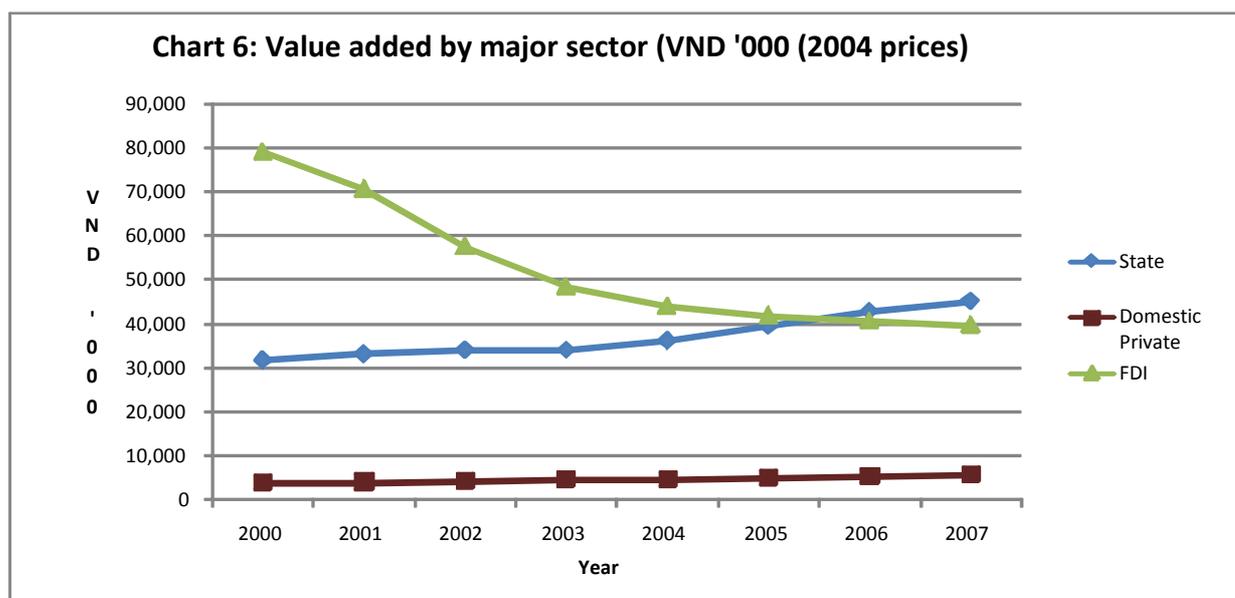
60. The proportion of enterprises in processing industry declined over years (from 24.6% in 2000 to 19.9% in 2007), properly due to the number of enterprises included in "other" have increased significantly in this period (from 6.7% to 14.3%).

2.1.5. PRODUCTIVITY OF VIETNAMESE ENTERPRISES

Labor Productivity

61. Average value added/worker is growing at an average 4.9% per year. Strongest growth in output/worker is in domestic firms (State and private). Labour productivity in foreign invested firms has declined dramatically, but remains well above that of domestic private firms (see chart 6).

⁸ Report dated 26/2/2009 of Ministry of Labour- Invalids and Social Affairs



Source: GSO Data: www.gso.gov.vn

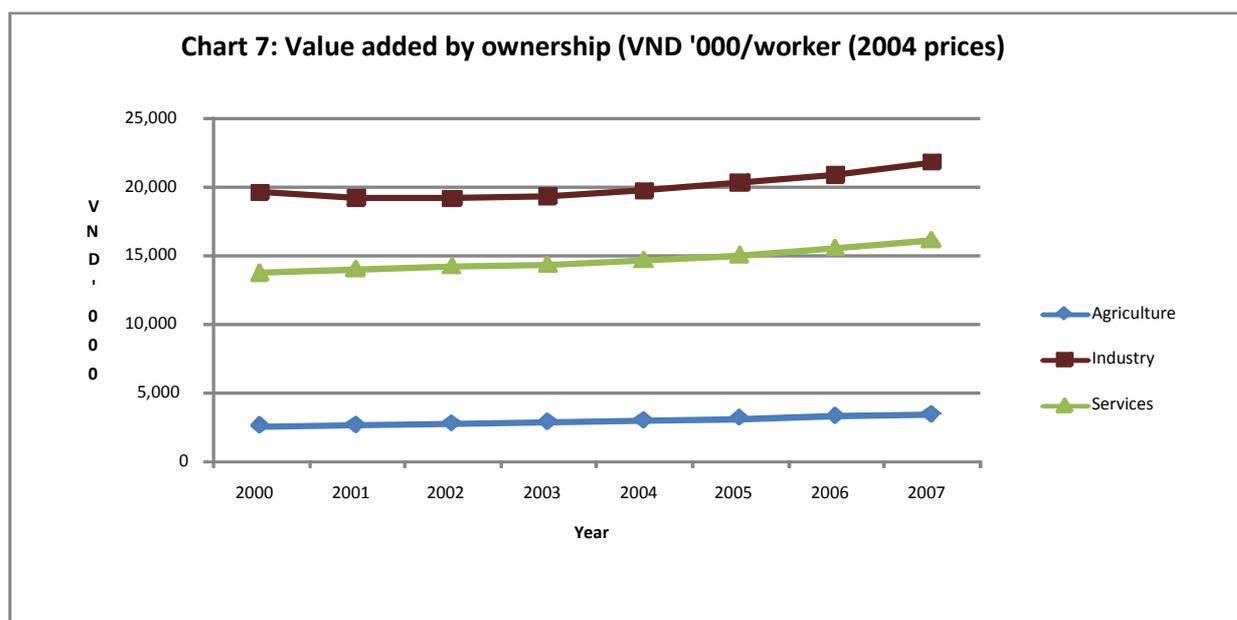
62. The value added per worker in the State sector continues to increase as State investments in enterprises are increasingly concentrated in capital intensive utilities, and less in labour intensive manufacturing. Value added per worker in the dominant domestic private sector has been increasing at an average 5.5% per year, but remains well below that in the State and FDI sectors. The pattern of FDI has changed markedly since the late 1990s, with a shift away from capital intensive investments (eg. oil, property and tourism) and towards labour intensive manufacturing. As total employment by FDI firms has boomed with the shift to labour intensive investments, average labour productivity in foreign invested firms has declined.

Table 15: Change in Labor Productivity

	Average annual change (%)
TOTAL	4.9
<i>By ownership</i>	
State	5.2
Domestic private	4.8
Foreign investment	-9.0

Source: GSO Data: www.gso.gov.vn

63. The following graph shows that output per worker has been increasing in all sectors. Output/worker is highest in the rapidly growing industrial sector and lowest in the agriculture sector. However, value added per worker has grown at a faster rate in agriculture than in the service and industry sectors. The gradual reduction in agriculture employment is providing opportunities to increase value-added per worker. This -- together with more decentralized growth in industry and service sector employment -- should help mitigate against rural-urban income disparities.



Source: GSO Data: www.gso.gov.vn

64. According to GSO, in 2007, the revenue in corporate sector was 3,566,611 billion dong, profit before tax was 222,521 billion dong, contribution to state budget (tax and other fee) was 220,298 billion dong. The net average revenue/employee was 483 million dong per year. The proportion of contribution to state budget in total revenue was 6.18%. The ratio of profit/working capital was 4.575%, profit/ revenue was 6.239%. Among above criteria, the proportion of contribution to state budget in total revenue and the ratio of profit/working capital in 2007 decreased slightly against 2006. Average income per employee per month was 2.342 million/month. However, the gap between average income/employee/month in SOE sector (3.239 million dong) and that in non-SOE sector (1.901 million dong) remained large. Among 155,771 enterprises active as of 31/12/2007, the number of enterprises generating profit was 106,416, accounted for 68.31%. The number of enterprises reported losses was 44,687, accounted for 28.68%.

Table 16: Net-turn over of enterprise by industries at year end 2007

No	Industries	Net-turn over (billion VND)	
		Total	Turn over from business
1	Agriculture and forestry	26,549	25,291
2	Aquaculture	5,142	4,893
3	Mining	158,689	156,474
4	Processing	1,185,435	1,161,997
5	Electricity, gas and water generation and distribution	73,063	72,450
6	Construction	207,983	200,790
7	Trade, repair of motor-vehicles, motor-bikes, household goods	1,380,794	1,358,019
8	Hotels and restaurants	29,492	25,595
9	Transport, storage and communications	215,380	204,233
10	Finance, credit	203,509	176,480
11	Scientific and Technological activities	420	404
12	Activities related to assets business and	68,617	62,026

	consultation service		
13	Education and Training	2,108	2,050
14	Health and social relief works	1,779	1,691
15	Cultural and sport	3,097	2,927
16	Community, social and personal service activities	4,551	4,479
17	Private households employment	5	5

(Source: The situation of enterprises through the results of surveys conducted in 2006 – 2008, Statistical Publishing House, 2009)

2.2. SME SECTOR AND THE GLOBAL ECONOMY RECESSION

65. The global financial crisis and economic recession that began at the end of 2007, has lasted throughout 2008 and continued the bad trend in early months of 2009 had negatively impacted to the world economies, most heavily affected on businesses sectors. The common difficulties such as lack of capital, production premises, backward technology, weak competitiveness, etc...have become more serious in the context of economic recession.

- Access to market: the global economic downturn made the global and domestic consumption continue to decline. International economic relation, especially trade and investment have been shrinking. The world trade has strongly felt down at first time (decreased by 12% in 2009, the biggest decline in seven decades). This made the consumption market of domestic products to become increasingly difficult, especially for export oriented enterprises. The number of export orders of major and traditional partners fell down. The number and value of export contract on seafood, rubber, coffee, footwear, electronics, computer and components reduced compared to the same period in 2008. In terms of competitiveness of export goods in the world market, in most countries, declining export turnover has led to a series of export protection and promotion policies, especially in regional countries which have similar export products, and trade protection, including some large countries. That caused a great obstacle to Vietnamese goods' competitiveness. Meanwhile, many enterprises are not able to forecast fluctuations of the market, less access to information about the economic situation and market price. This also largely affect to competitiveness of enterprises in the market.

- Access to land resource: In the context when real estate market is not showing signs of "thawing", enterprises have still faced difficulties in accessing production premises. Many enterprises outside industrial parks often settle clearance by themselves with little support from local authorities, cubersome from adminitrative procedue on land remains,... Domestic SMEs, who can only select the form of land allocation with the collection annually land-using fees, but not the form of land lease with a lump sum for leasing priod, have to pay a bigger amount of money compared to foreign ones.

- Access to capital: In the context of normal developing economy, difficulty about capital of enterprises is mainly at a phase of approaching capital. However, in the context of recessional economy, this difficulty shows on two aspects which are capital mobilization and capital usage. Captial mobilization of enterprises continuously faces many difficulties since financial institutions concentrate financial resouses to overcome difficulty caused by the impacts of the world economic recession or to perform measures in order to preserve the capital. However, even having capital or being able to access to capital, enterprises

have to face many difficulties in using capital as the market is shrunked, production and business are stagnated.

- Business management capability. Existing limitations on business management of domestic enterprises and SME in particular become worse in the context of economic recession. Many enterprises which got used to operating in the stable and protected environment do not actively restructure enterprises, thus they met difficulties in the context of economic crisis.

- Together with the world economic decline, the attraction and disbursement of foreign direct investment capital face difficulties. The global economic groups have been adjusting business strategies in order to deal with the worldwide financial crisis. This adjustment affects to the approved and potential projects. Many foreign investors have to reduce temporarily their scale and postpone some projects because of lacking credit. Therefore, it is possible for many approved FDI projects to be extended, reduced in scale or not to be performed which lead to a decrease in proportion of performed FDI capital ratio to the registered FDI compared with previous year. For potential investors, although Vietnam is still an interesting market in medium and long-term visibility, they will consider more carefully and spend much more time to decide their investment.

In addition, the potential difficulties of enterprise, especially SMEs such as low technological level, passive application and operation of technology, limited quality of human resource, etc...also badly affect enterprises.

SECTION III – SMES SUPPORTING

3.1. DOMESTIC INITIATIVES FACILITATING SMES DEVELOPMENT

3.1.1. GOVERNMENT AND BUSINESS DEVELOPMENT

Changing role of the State

66. The role of the state vis-à-vis business is in a process of transition. Numbers of State enterprises are gradually being reduced under the Government's equalization and divestiture programs while the share of private sector (including SMEs) has increased.

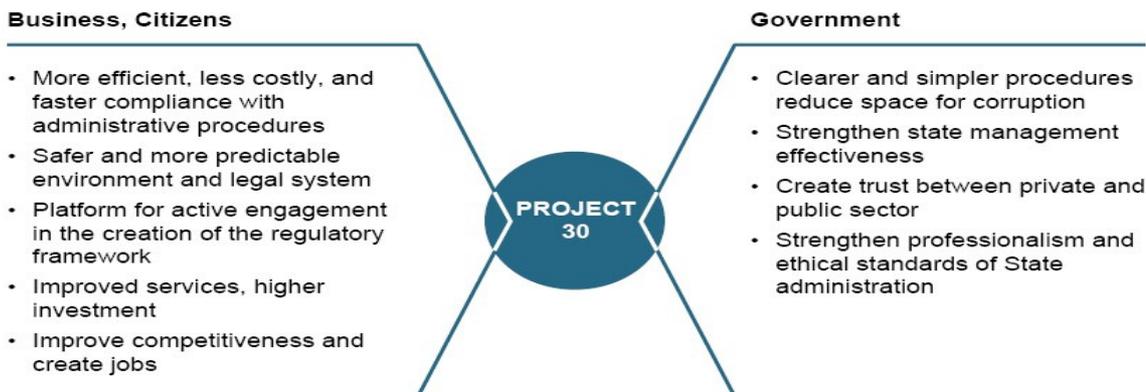
67. The Government is taking steps to separate regulatory and ownership responsibilities of State agencies (central ministries and provincial people's committees). A more streamlined role for Government could help to ensure that the Government more effectively provide the support infrastructure and services needed for the economy, including SMEs.

68. The national Socio-Economic Development Plan (SEDP, 2006-10) states that the Government needs to better define the role of the state in economic management, and reorganize/reduce the number of agencies to ensure that they focus on core state management responsibilities. Increasing emphasis is being given to the key role of the private sector in generating employment and increasing living standards. The SEDP targets accelerated progress in equalization, strengthening State-owned enterprises governance, and the removal of ownership responsibilities from line ministries and provincial agencies.

Business Environment Improvement

69. *Administrative procedures reform is one of the substantial renovation.* The Government adopted "The Master Plan on Simplifying Administrative Procedures (Project 30: Office of Government)" in 2007. The aim is to prepare an inventory of, and review, all of the administrative procedures affecting businesses at both the national and provincial levels. All procedures will be compiled in a comprehensive, transparent, and easily accessible database. The second Phase of Project 30 will "review, simplify or abolish cumbersome procedures" to reduce compliance costs. Anticipated benefits of these actions are summarized below:

Benefits of the reform



Source: <http://thutuchanhchinh.vn/en/benefit-reform>

70. **Business registration.** The Enterprise Law transformed the approach to business start-up and registration from one of “asking permission to do business” to one of “notifying the requisite authority of the existence of the business entity”, as long as the business activity was not prohibited by law. Statutory maximum time limits for completing business registration formalities were established, procedures were simplified, and some notarization requirements were abolished. The result of these reforms was to greatly reduce the time taken to establish new business, and the cost of establishing new businesses. This was one of the key factors contributing to the rapid growth in business numbers described earlier.

71. From 2006 to now, business environment has got encouraging results due to much improved legal framework for enterprises. The legal framework for enterprises has identified basic rights of enterprises and enterprise administration framework in accordance with basic requirements of market oriented economy and international economy integration especially since Vietnam became WTO member in 2007. The most remarkable result of administrative procedures simplification related to enterprise activities during the past time was the improvement in the legal framework related to business registration and market entry.

72. At present, SMEs start up business easier than a few years ago. Start-up procedure, time and cost has been cut down on. Most locals have established one stop shop mechanism in granting certificate of business registration & tax registration, stamp-specimen registration for enterprises (according to the Circular 05/2008/TTLT/BKH-BTC-BCA dated 29/7/2008 on the guidance of coordination amongs agencies in dealing with business registration, tax registration and stamp-specimen registration for enterprises establishing and operating under the Enterprise Law). Time for granting business and tax registration is reduced to 5 days (2005 Enterprise Law allows business registration maximum of 15 days, excluding time for stamp-engraving and tax registration), and even some locals reduce to 3 working days (Lao Cai, Thai Nguyen, Long An,...)

73. Also related to market entry procedure of enterprises, presently enterprises engrave stamp without the license granted by Ministry of Police. It impacts positively on enterprises as reducing time and money for the market entry procedure. Thus, the legal environment on

business and investment of Vietnam has been much improved, facilitating the development of SMEs and contributing to the implementation of the national Socio-Economic Development Plan (2006-2010).

74. A national business registration system is now being developed -- within Enterprise Development Agency/ MPI (with support from Norway and UNIDO) -- that will allow access to public business registration data on a nation-wide basis. The aim is to have a national system operational by 2010. Streamlined processes are expected to further reduce business registration time and costs, and also to ensure more regular updating of information.

Tax administration reform:

75. Government adopted Law of Tax Management effective from 1 July 2007 stipulated tax procedures with the aims to make these procedures more simplified, transparent, and easy to implement; while enhancing the inspection and supervision role of the State, public society in tax management; facilitating and creating favourable condition for tax payers in compliance with Tax Law. All the tax procedures such as: tax registration; invoice purchasing; tax declaration, tax paying; tax refund; tax exemption; tax reduction; tax inspection, ... were amended, supplemented with the aim to abolish cumbersome procedures wasting time and money of tax payers; encourage tax payers comply all the stipulations of tax law while saving cost and sources in tax management.

76. Accordingly, the time for tax administration procedure and the number of documents are reduced. The procedures are stipulated clearly and transparently: consistently apply a single tax code for Customs agency and Tax agency, reduce the time of granting tax code from 30 working days to 5-8 working days, reduce three types of document in the procedure of purchasing invoice first time and next time, encourage enterprises print invoice on their own, abolish application-approval mechanism” in the procedures of tax exemption and reduction; abolish “tax payment notification mechanism”, shifting to the mechanism that the payers calculate and declare tax payment themselves; etc. On 3 June 2008, the National Assembly passed the Law on Corporate Income Tax 2008, effectively from 1 January 2009 and replaced the Law on Corporate Income Tax 2003.

Trade and Investment Facilitation

77. Building on the success enterprise law reforms initiated in the late 1990s, the National Assembly passed a new **Enterprise Law** and a new **Investment Law** in 2005, with the aim of further boosting private investment by further reducing administrative barriers to business development and expansion, and further reducing discrimination between enterprises based on ownership. Foreign and domestic private enterprises are now allowed to invest in all areas not specifically prohibited by law. This has contributed to the recent strong growth in (domestic and foreign) private investment, output and employment.

78. Further reforms to remove remaining ambiguities and inconsistencies in investment legislation are currently being formulated for approval in 2009. Decision No 55/2009/QĐ-TTg (15/4/09) on foreign investment in the Vietnamese stock market allows foreigners to own up to 49 per cent interest in a public holding company, public securities investment fund, or public securities investment company. Proposed changes to the Investment Law (possibly in 2009) are expected to further clarify ownership issues, and ensure that a

domestic firm with no more than 30% foreign equity will be classified as a domestic enterprise⁹ (with potential benefits in terms of investment licensing, labor law provisions, and land law provisions).

79. **WTO Accession.** Vietnam's accession to the World Trade Organization in early 2007 sent another signal to investors about the Government's long-term commitment to encouraging private investment in an open and competitive market-oriented economy. Following accession, the Government outlined strategies to maximize benefits to business from WTO accession¹⁰. Investment has been further encouraged via regional and bilateral trade and investment agreements. The Government is also implementing a customs modernization project with World Bank support, which has potential to reduce transport costs and improve logistics services in Vietnam.

80. **Trade Facilitation/Customs Modernization.** Customs modernization is one of three key institutional development priorities for the Ministry of Finance (MOF). Vietnam is committed to implementing the ASEAN customs agreement¹¹, and to introduce a national single customs window by 2012¹². The World Bank is supporting implementation of a national customs modernization project with loan and TA support. The General Customs Department (GCD) has been piloting e-customs procedures and implementing distance submission of customs declarations. As of the end of November 2008, some 2/3 of declarations were distance submissions, of which about 2% were done using e-customs declarations. The Customs Department submitted a revised strategy for customs modernization by 2020 to the government for approval at the end of 2008. The Customs Department action plan 2008 to 2010¹³ emphasizes customs procedure reform; creation of favorable conditions for exports, investment and tourism; and actions to control smuggling and corruption.

81. A new decree on customs procedures is being formulated which will facilitate more broad based use of e-customs procedures. New software is being established to streamline processing and reduce opportunities for corruption. The aim is to ensure that 95% volume of export and import goods throughout the country are processed using automated customs procedures. Through better surveillance the aim is to reduce physical inspections to less than 5% of all exports, and 20% of all imports. Some 52 independent agents have been registered to provide customs facilitation services, and it is hoped that most customs procedures will be handled by registered agents. A new model for the organization of the General Customs Department, with clearly defined terms of reference for all positions, has been submitted to the Prime Minister for approval. Directive 1426/CT-TCHQ (promulgated 30 June 2008) providing clear guidelines on rules, administrative discipline and anti-corruption has reportedly led to significant improvements in customs processing and reducing corruption¹⁴. Ongoing and proposed reforms will help reduce the fixed costs of trade facilitation, thus providing new opportunities for SMEs to directly engage in trade.

Infrastructure bottlenecks

82. **Accelerating infrastructure investment.** As noted earlier, businesses have identified infrastructure weaknesses as increasingly important bottlenecks to business development and productivity growth. Power, ports and roads are particular bottlenecks. The Socio-Economic Development Plan highlighted the need to accelerate infrastructure development, and stressed the need to encourage private investment in infrastructure.

However, progress has not met business needs. The Government recognizes these problems and has included specific measures to accelerate infrastructure development in its recent economic stimulus package. Most of the major donors -- including ADB, WB and Japan -- allocate a major proportion of their assistance to addressing infrastructure constraints.

83. **Private public partnerships.** Given limited resources, the Government is also taking steps to develop a more supportive enabling environment to attract private investment into commercially viable infrastructure development. Success in this area would facilitate business development and also allow the Government to focus its efforts on the provision of essential services and infrastructure that cannot be provided by the private sector. A decree was issued in 2007 to update the legal framework for build, operate, transfer projects (BOT)¹⁵. However, only a handful of projects have been successfully completed, the participation of private sector in the infrastructure development projects is limited. Strong Government commitment is needed to accelerate approval and implementation of such projects.

84. Export processing zones (EPZs) and Industrial Zones (IZs) have been a useful tool in facilitating the investment needed for industrialization in countries where land markets are poorly developed and infrastructure and market institutions outside these zones remain underdeveloped. They can also help in better managing environmental impacts. In March 2009, the Government issued a master plan for the development of the northern coastal region with linkages to southern China¹⁶. Other focal economic zones are being developed¹⁷. Infrastructure specific strategies are also being developed and/or implemented to address bottlenecks. Despite such progress, more needs to be done to develop the capacity needed for successful implementation of these strategies.

85. **Transport.** Effective transport systems are critical for the development of a competitive national economy and for Vietnam's integration into international markets, including global production networks (GPNs). Government strategies now recognize the need to take a more business oriented, and multi-modal, approach to transport development to maximize forward and backward linkages in economic activity. Improvements in transport and trade related services over the last decade are already generating new opportunities for SMEs to move into higher value added production (e.g. furniture and horticulture).

86. **Power.** Unreliable power supply has been a major constraint to all enterprises, but particularly hurts SMEs, because they lack the scale to invest in back-up supplies and voltage protection systems. The Prime Minister approved (in 2007) a new energy development strategy to 2020¹⁸ which aims to accelerate energy development. Private participation in the power sector is to be increased via equitization, public private partnerships (PPPs), and direct investments. Competitive retail markets for power are to be developed. PPPs are also expected to help in improving port infrastructure and some high density transport links. These should help free public resources to invest in other non-commercial public infrastructure and services.

87. **Urban infrastructure.** More investment in urban infrastructure will be required to improve the investment opportunities for SMEs, while also minimizing the social and environmental costs of the rapid urbanization associated with industrialization. The

Government has been successful in attracting commercial investment in industrial zones and in developing some new urban areas.

88. **Information and communications.** The Vietnamese information and communications technology (ICT) sector provide a concrete example of how competition and cooperation with leading foreign investors can do to transform public infrastructure services. The coverage and use of telecommunications and internet technology has increased dramatically since the early 1990s, as costs declined sharply, and now Vietnam compares favorably with countries of higher per capita income in terms of ICT indicators. The challenge is to apply these lessons to address infrastructure weaknesses.

Labor Market, Labor Relations and Vocational Skills

89. Government strategies recognize that growth in labor productivity is essential to achieving sustained improvements in competitiveness and living standards. Regional and international experience highlight the importance of maximizing labor market flexibility, while also protecting the legitimate rights of workers. Getting this balance right is will be important to success in employment generation and poverty reduction. The Government has been accelerating efforts to establish tripartite (Government, employees, and employers) mechanism at the central and local level to develop an appropriate balance. The Ministry of Labor – Invalids and Social Affairs (MOLISA) has submitted a draft of the amended and supplemented Labor Code.

90. Though the administrative barriers to movements of people within the country have been ameliorated, but the lack of national skills and training accreditation systems remains a barrier to labor mobility. In March 2008, the Government has also announced that it would eliminate the cap on the number of foreign workers in a enterprise (previously, the cap is 3%). This policy has been highly appreciated by many enterprises, facilitating the transfer of skills, technology, management experiences as well as the access to foreign capital.

91. In order to reduce labor disputes, an increasing concern to businesses, the Party Central Committee issued Directive 22-CT/TW on enhancing labor relations within enterprises¹⁹. Government see a need to perfect the legislative environment so that strikes at enterprises can take place in a legal manner, to maintain the harmonious, stable employer-employee relations for the protection of legitimate rights and interests of both sides while at the same time ensuring a stable investing environment and social order.

92. Probably the key medium to long-term challenge for the Government is to facilitate improvements in national learning systems, to meet the lifelong learning needs of a modern economy²⁰. The Government is in the process of planning to re-vitalize its system of vocational training and higher education to achieve regional and international standards. The Government recognizes the need to focus more on designing, facilitating and overseeing a more broad-based and inclusive learning system, including the use of information technology to facilitate learning. It aims to improve the quality, relevance, efficiency, and equity of vocational education systems by working with businesses and other stakeholders to develop appropriate accreditation, assessment, and vocational qualification systems.

19. The Directive is available at <http://www.molisa.gov.vn>

93. In order to improve the information system of labor market, MOLISA plans to introduce more regular labor market surveys, starting with regular surveys of labor markets in the major industrial zones. These surveys should greatly help in obtaining reliable timely information about changes in labor market conditions. Systems are being developed to obtain and disseminate more reliable information on changing market and skills needs, skills accreditation systems, the quality of different education and training providers²¹. The Ministry of Education and Training of Vietnam (MOET) is exploring new options to finance education and training, with the private sector expected to play an increasingly important role²².

Support on accessing to information

94. The Business Portal at <http://www.business.gov.vn> was opened by the Ministry of Planning and Investment (the Agency for Enterprise Development) from the 2nd August 2007 with many useful information for enterprises in general and small medium enterprises in particular. The contents of information about SMEs support policies, regulations as well as the latest information related to business activities, business license have been always paid much attention and updated to the Business Portal. In addition, in order to serve the enterprises' demand of connecting and seeking for internal and external business partners, the Ministry of Planning and Investment (the Agency for Enterprise Development) added new entry "Enterprise searching" to the Portal to facilitate enterprises to find business partners.

95. Currently, the Ministry of Planning and Investment has been setting up the national enterprise information system as the national database of business registration within the framework of the Business Registration Reform Program in Vietnam, also, urgently reviewing business licenses which are valid (as of November 2008) to help enterprises easily search information for their business registration.

Legal support

96. Legal support program for enterprises was stipulated in the Decree No 66/2008/ND-CP on 28th May, 2008. Ministry of Justice has cooperated with ministries, industries, provincial People's Committee and business associations drafting the inter-ministerial legal support program for enterprises and submitted it to the Prime Minister for approval. Localities had also completed their legal support program. However, the implementation of support activities remained limited because of lacking financial mechanism.

97. In addition, Ministry of Justice has also taken some steps to strengthen human resource and facilities for Enterprise Legal Club to enhance its role in legal supporting for enterprises.

Support SMEs in credit access

98. Currently, enterprises in all economic sectors including SMEs are able to access to investment and export credit loans. Credit policies have been adjusted in line with WTO commitments, enabling all economic sectors to easily access to loans. The current stimulus package of the Government with timely implementation and effective coordination among stakeholders achieved remarkable results, promoting confidence and motivation for SMEs

to maintain and develop production, increase goods consumption, reduce jobless and ensure social security.

99. In addition, Ministry of Finance has been drafting the mechanism of technical and consulting assistance for SMEs to hire consultants in the field that they can not undertake themselves as well as a special mechanism for SMEs' demand of low-interest loans.

100. Recently, monetary, interest rate and exchange rate policies have been regulated in a flexible manner, suitable to each period. In addition, the State Bank of Vietnam continues to supplement and improve the polices on credit, capital mobilization, financial leasing, developing derivative instruments in accordance with law, targets and practical requirements. Credit institutions consider and decide to offer loans with mortgages, may be secured by properties formed from loans or be guaranteed by a third party.

101. Regarding to the foundation of Credit Guarantee Fund (CGF), so far, there have been 11 localities having CGF including Tra Vinh, Yen Bai, Dong Thap, Ho Chi Minh city, Ha Noi, Ninh Thuan, Bac Ninh, Ha Giang, Kien Giang, Tay Ninh, Vinh Phuc. Some localities such as Thanh Hoa, Hai Phong, Da Nang, Khanh Hoa, Ba Ria – Vung Tau are in the process of designing proposals on CGF establishment. Therefore, this financial institution failed to solve financial difficulties for SMEs.

102. Besides CGFs, local authorities also mobilize Investment Development Fund, Industrial and Agricultural Promotion Fund, etc...to support SMEs. For example, in Tien Giang, the Investment Fund was established to supply capital for enterprises to purchase new equipments. Annually, this fund offers loans for equipment renovation, investment in upgrading and expanding production premises, contributing to solve financial difficulties. Since 2006, the province's Investment Development Fund has provided more than VND 101 billion for SMEs to implement 58 investment projects in upgrading equipment and machinery. In Nam Dinh, Credit Guarantee Fund was not established because of difficulties in mobilizing capital and Credit guarantee activities were mainly provided by local development bank. However, the establishment of funds like the Agricultural Promotion Fund, Fishery Promotion Fund have contributed to support finance for enterprises in business and machinery renovation.

103. Local commercial banks also take steps to mobilize capital resources, diversify credit forms to meet SMEs' demand.

Support on production premises

104. Local governments have reviewed land resources which currently are assigned to organizations (under the Directive No 31/2007/CT-TTg by the Prime Minister on 14th December 2007) to collect unused land, land used for non-appropriated purposes to provide more land resources for enterprise to lease. According to reports on implementing the Directive No 31/2007/CT-TTg, there are 7,833,143 hectares being managed and used by total 144,485 organizations, in which there are 49,723 economic organizations (accounting for 34.41%) managing 560,715 hectares (accounting for 6.46%). Types of land using by economic organizations include: allocated land area (158,650 hectares), leased land area (305,855 hectares), transferred land area with money paid from state budget (84 hectares) and other types (27,943 hectares).

105. In terms of land-use planning, there have been 63 provinces and cities have land use master plan by 2010 approved by the Government. There are 531/681 (accounting for 77.97%) districts, towns and provincial cities and 7,576/11,074 (accounting for 68.41%) communes, wards and towns completed the planning, including 4,576 units set up the detail land-use planning. This contributes to restructure use of land in accordance with economic restructure, ensuring non-agricultural land resource to meet the development requirements. In addition, local authorities take steps to make transparent information on land use planning for people and enterprises to invest in accordance with the plan.

106. Depend on development requirement and budget capability, local governments facilitate SMEs to access to land, production premises through policies on setting up industrial zones, industrial clusters, trade villages. For example, in Tien Giang, the local authority spent provincial budget to invest and develop industrial zones, clusters and trade villages with full infrastructure including electricity, water supply, drainage systems and transportation to reduce business costs for investors. In case industrial zones and clusters are built by investors, the local authority will support investors in land clearance and resettlement.

107. In recent years, Hanoi also invested and developed many industrial zones and clusters to meet the demand of private enterprises on production premises and move production factories outside the city. So far, there have been 49 industrial clusters and 177 industrial locations set up in Ha Noi. Hanoi authority also approved projects to set up industrial villages such as Bat Trang, Van Ha, Lien Ha, Kieu Ky, Trieu Khuc, Son Dong, etc.... The city is now designing a plan on industrial trade village zones, clusters in expanded Hanoi.

108. On 19 August 2009, Prime Minister issued Decision No. 105/2009/QĐ-TTg on industrial cluster regulations. Based on this Decision, Ministry of Industry and Trade is guiding localities in managing industrial in accordance with the above Decision as well as building up policies on local industry cluster development.

Support on Science and technology

109. Recently, the Government has carried out a support program on intellectual property development, focusing on organizing, training, guiding enterprises to join in the program; holding scientific workshops on development and management of geographical indications; organizing study tours on managing and developing geographical indications, etc.... To implement and manage projects under the Program, Ministry of Science and Technology has selected, approved the implementation of 40 projects relating to all areas of intellectual property, including intellectual property propagation and dissemination project, geographical indications management and development project, support programs on intellectual property information exploitation and intellectual property transfer.

110. Besides, Ministry of Science and Technology (Agency for Intellectual Property) has supported 8 provinces (including Thua Thien Hue, Binh Dinh, Lam Dong, Quang Tri, Khanh Hoa, An Giang, Phu Yen) to establish intellectual property libraries located at department of science and technology aiming at enhancing the capacity of industrial and intellectual property information.

111. *With regard to appraisal and publicize national standards, national technical standards under the Law on Standards and Technical Regulations:* in 2007 - 2008, Ministry of Science and Technology has appraised and publicized total 220 Technical Standards (TCVN) in the areas of construction and construction materials, some equipments with strict requirements on safety, road transportation, food, oil, environment, etc..... and reviewed, amended, supplemented to transfer 257 TCVN to national standards. Also, Ministry of Science and Technology has appraised and issued total 35 Technical Regulations (QCVN) in many areas such as gasoline and diesel fuel, helmets for motorcyclists, industrial wastewater, processing of natural rubber, equipments to prevent maritime environmental pollution, etc....

112. The National Science and Technology Development Fund was established and started its operation since February, 2008. The fund provided its 1st financial support on basic research in December, 2008. On 24 December 2008, the Chairman of Fund's management Council signed Decision No 03/HD-HDQLQ providing regulations on the implementation of basic research projects in natural science funded by the National Science and Technology Development Fund. In 2008, this fund has signed contracts with 25 enterprises on supporting for technology renovation under Decree No 119/1999/ND-CP.

113. In order to enhance competitiveness of SMEs, Ministry of Industry and Trade issued policies on promoting application and development high technology, renovation and improvement technology level in production of export products, products have the advantage of raw materials, and products comply with AFTA program; setting up a pilot model to apply and transfer science and technology for social and economic development in rural and mountainous areas in 2010. Localities organized free training courses for business owners on science, technology, technology transfer and supported partly of operation cost in some specific areas such as registration on protecting industrial property, managing product and service quality, introducing production technology.

3.1.2. CONCRETE SUPPORT PROGRAMS

114. To implement Decision No 236/2006/QD-TTg of the Prime Minister approving the five-year plan on SME development, Ministry of Planning and Investment in collaboration with related ministries, provincial People's Committee has implemented the action plan with 07 major groups of solutions and 15 specific measures. Based on the support policies for SMEs under Decree No 90, support programs were issued including National Trade Promotion Programme, Project on setting up and developing national brand to 2010, National Industrial Promotion Programme to 2012, etc...

115. It can be said that, SME support policies in recent time has been successfully put into practice and shown positive impacts on the development of SMEs community.

Human resource training programme for SMEs

116. The program on human resource training support for SMEs in the period 2004-2008 under the Decision No 143/2004/QD-TTg dated August 10, 2004 of the Prime Minister has implemented actively at provinces, business associations. This is the first training program sponsored by the State budget aiming at enhancing knowledge on business management for business owners and entrepreneurs. The Program affirms the State and Communist Party's concerns on SME and private sector development polices. (regulated in the Decree No 90/2001/ND-CP). Provinces, cities have actively allocated local budget resource to

implement the program together with a big amount of financial resource mobilized from international donors through technical assistance projects.

117. Over four years implementing Decision No 143/2004/QĐ-TTg of the Prime Minister, Ministry of Planning and Investment in cooperation with ministries, industries, localities and association has successfully implemented the human resource training programme with significant results achieved: 3,704 training courses for SMEs (1,372 courses on business start-up, 2,304 courses on business management, 28 courses training for trainers) with 182,870 participants (49 participants per course on average). The total budget allocated for the programme in 4 years was 73,858 million dong, in which 73,858 million dong from central budget, 21,630 million dong from local budget and 24,502 million dong from other sources.

118. In 2008, there were 1,232 training courses held for 71,791 participants with total budget of 28,644 million dong, in which 9,060 million dong supported by the central budget. At present, in line with Prime Minister's instruction, Ministry of Planning and Investment develops guidelines for ministries, industries, provinces to include training support activities for SMEs in the annual social-economic plan. In 2010, the supplemental State budget for this plan is estimated about 20 billion dong.

119. Comparing with the plan in the Decision No 143/2004/QĐ-TTg of the Prime Minister, over 4 years, the Program has implemented approximately 126% out of total courses, 160% participants and nearly 41% budget. According to statistical data, the number of participants increased 70% and local budget increased over 46% per year on average, showing that local authorities have paid more attention to SMEs development support.

Local industrial development support programme

120. Implementing Decree No 134/2004/NĐ-CP on 9th June of Government to encourage local industrial development, Ministry of Industry and Trade has directed localities to create favorable environment, encourage all economic sectors to promote local industrial investment and development, contributing to economic structural adjustment, creating jobs and increasing income for employees.

121. At local level, provinces issued more incentive policies for enterprises to attract and encourage investors to invest in local industry. Localities have effectively implemented programs on industrial promotion and trade village development. Provincial authorities issued local decisions on encouraging the development of industrial production and small-scale industry and handicraft at localities (Tien Giang, Lai Chau, Bac Giang, etc...).

122. With a view to promoting the development of enterprises in rural areas, enhancing the role of these enterprises in creating jobs for farmers, contributing to poverty alleviation, tourist development, stability and balanced development among the regions, Ministry of Industry and Trade in cooperation with Ministry of Planning and Investment, Ministry of Agricultural and Rural development and experts have drafted the project of industrial enterprises at rural area that associated with the industrial promotion program and the five years plan for small SMEs development 2006-2010 period. Currently, the draft has been submitted to the Government for consideration.

National Trade Promotion Program

123. Implementing regulation on formulating and supporting the national trade promotion program in the 2006-2010 period (Decision No 279/2005/QĐ-TTg on 3rd November, 2005), in recent years, Ministry of Industry and Trade has organized many delegations with participation of enterprises of all economic sectors to promote trading activities at Asian, European, African and American markets. The ministry has directed and guided People's committee of provinces, central level cities to design local trade promotion programmes in accordance with this regulation and current law on trade promotion activities. The financial resource for above-mentioned trade promotion activities is from the local trade promotion funds which were established from local budget.

124. Trade promotion fund of provinces, cities has operated effectively to assist enterprises in marketing, making market researching and business linkages. Investment and trade promotion programs on supporting enterprises in product consumption, linkages between foreign and domestic markets were implemented by local trade and investment promotion centers.

125. Since 2003, total state budget allocated for National Trade Promotion Program is nearly 500 billion dong. In 2008, this figure was 80 billion dong. The 2008 program supported nearly 4,600 participants and signed 2,530 contracts and memorandums which worth 1,328.75 million USD. This is the highest figure for the program. The content of support activities and market structure have slightly changed compared to previous years, and the structure of sector groups has been adjusted in accordance with general development trend. In 2008, more fund from state budget was spent on processing industry to increase export turnover, followed by agricultural, forestry, aquaculture sector and the rest is for multi-sector export commodity group.

126. In 2009, 172 billion dong was spent on trade promotion (2 times higher than 2008). This year, the National Trade Promotion Program was divided into various phases in line with market fluctuations. The ministry has approved two phases with 97 projects worth 128.6 billion dong.

127. Basically, national trade promotion programs have significantly contributed to support enterprises, especially SMEs in enhancing their export capacity, promoting brand name of products, getting business opportunities, enhancing the position of Vietnamese enterprises in the world market.

3.1.3 SUPPORT SMES IN THE CONTEXT OF GLOBAL ECONOMIC RECESSION

128. Recently, the 9th Resolution of Central Communist Party (Session X) and the Politburo's conclusions on social-economic development in 2009 have been seriously implemented by the Government, ministries, industries, localities; mechanisms, policies and solutions on preventing economic decline, inflation, maintaining macro economic stability, reasonable and stable economic growth, ensuring social welfare were ". These solutions have positive impacts on the economy in general and enterprises community in particular as following:

Support on Taxation

129. In the past time, the Government has issued many financial policies to remove difficulties and obstacles for enterprises such as: allow to reduce up to 30% payable

corporate income tax (CIT) in the fourth quarter of 2008 and 2009 as a whole for SMEs; extend the deadline of CIT payment to 9 months for the payable amount of 2009 for enterprises in production, outsourcing, agricultural processing, forestry and fishery products, garments and textiles, leather shoes, electronic components. These are enterprises using a big number of labors and have suffered from negative impacts of global economic recession.

130. The Prime Minister issued the Decision No 58/2009/QĐ-TTg on 14th April, 2009 on additional measures on investment and consumption stimulus policy, preventing economic decline and removing difficulties for enterprises. Accordingly, reducing by 30% corporate income tax in the fourth quarter of 2008 on enterprises' incomes from production or sub-contract yarn production, weaving, dyeing, garment production and leather and footwear. The Government regulated temporarily reimbursing 90% of the input value-added tax (VAT) amount for exported goods if enterprises have not yet acquired via-bank payment documents and further reimbursing the rest of 10% when the payment documents are available and reducing tax for 19 other items and services group. Ministry of Finance give guidance on procedures for tax reimbursement, reducing, and regulate on reducing by 50% value-added tax for export items under the list of item of the import duties incentive Table.

131. In addition, the Government has directed rescheduling import tax payment grace periods; reducing import duty rates for some commodity groups are raw materials and adjusting tax on 08 drug treatment groups to reduce business cost and stabilize the market.

Support on Interest rate

132. The Government has implemented flexible and efficient monetary policies; adjusted flexibility exchange rates by market signals to encourage export and maintain macroeconomic stability; reduce the reserve requirement rate of credit organizations and basic interest rate. The Government also issue interest rate subsidy policy to improve credit accessing of business, especially SME sector who are facing much difficulties caused by the crisis.

133. Implementing the direction of the Prime Minister for increasing capital supply on market, the State Bank has adjusted to decrease 1% per year of refinancing interest rate, and rediscount interest rate; operated actively open-market operations; implemented foreign currency swap among commercial banks with low-interest rate (6%-6.5%/year). In addition, requiring state-owned commercial banks to reduce loans interest rate that not exceed 10.5%/year for before signed credit contracts to remove difficulties of customers.

134. In the Decision No 131/2009/QĐ-TTg on 13th January in 2009, the Prime Minister allows 4% interest rate subsidy policy for organizations, individuals which borrow working capital for production and trading activities under credit contracts for 8 months, from 1st February to 31st December of 2008. By 29th April 2009, outstanding loans of subsidy interest under the Decision No 131/2009/QĐ-TTg was 268,700 billion dong, in which outstanding loans of agriculture, forestry and fisheries sectors account for 14.5%; industry and construction 40% and trade, services, transport 40%.

135. Simultaneously, in order to accelerate the process of economic recovery, regain growth after economic decline, the Prime Minister has issued the Decision No 443/QĐ-TTg on 4th April 2009, in which decided 4%/year interest rate subsidy of medium-long

term loans with a maximum duration of 24 months for organizations and individuals invest in, and develop to production and trading activities...

136. The interest rate subsidy policy was a right demand stimulus policy of the Government. This policy has received support, efficient collaboration from local authorities, banking system, enterprises sector especially SMEs. Interest rate subsidy mechanism was issued and publicized widely, transparently and clearly, having close supervision on commercial banks and subsidiary objects as organization, individuals; commercial banks implement quickly this policy through issuing professional mechanism and providing sufficient information to their customers.

137. Up to now, interest rate subsidy mechanism has been smoothly operated by the State bank, commercial banks and localities without negative phenomena. In general, the implementation of interest rate subsidy mechanism which for short-medium-long term loans, loans to purchase machines, components, agricultural and construction materials and loans to policy beneficiaries has initially positive and indispensable impacts for production and trading activities of enterprises, in accordance to the targets set-out as reducing costs of loans and products, maintaining production and trading activities, keeping jobs for workers. The interest rate subsidy mechanism has enable enterprises to sell stocks and increase the return of capital. Many enterprises have looked for new market, set up new business plan and investment.

Credit guarantee support

138. In order to promote SME's access to financial resource through credit guarantee policy, in the context of financial crisis, besides local credit guarantee fund, the Government assigned the Vietnam Development Bank (VDB) to perform credit guarantee operation for SME in the whole country.

139. Implementing of the Decision No 14/2009/QD-TTg on regulation of guarantee loans for SMEs, VDB has signed guarantee contracts with 20 commercial banks and implemented guarantee operation since March 2009. According to VDB's report, by November 2009, VDB has guaranteed for enterprises with total amount of 6,686 billion dong in which there are 1020 deeds, 149 projects and 871 plans of short term business.

140. VDB has promoted administrative reform, cut down appraisal time for enterprises to early access to loans.

Support for jobless workers

141. To support enterprises that meet difficulties caused by economic recession and have not yet paid salaries, social insurance, unemployment subsidy or subsidy for workers who have lost their job voluntarily under the regulation on workers losing job. The Prime Minister issued the Decision No 30/2009/QD-TTg on 23rd February, 2009 on supporting workers losing jobs in the difficult enterprises as economic recession. In addition, the loans program for students, lending jobs and loans for labor export were continued to implement under the plan.

142. Localities have reviewed and evaluated employment situation in the context of economic recession. People's Committees of provinces and cities have set out various

measures to promote production and attract workers in the area; giving guidance and making dialogue with enterprises to implement measures on re-arranging of work in order to stabilize jobs, raise income for workers. Also, they implemented policies to support workers who lose their jobs under the policy of the State.

143. In Ho Chi Minh City, the Labor Union of city has directed its district's branches, unions in export processing and industrial zones to review, organize meeting with enterprises who have needs to recruit workers to timely support for jobless workers, regularly monitored employment situation to introduce new jobs to workers. By the end of April 2009, 20,612 out of 25,608 labors were offered advises on new jobs (80.49%). People's Committee of Kien Giang province also supported for 50 enterprises have difficulties in production and business activities caused by economic recession to make plan of labor arrangement.

144. In fact, that many enterprises are having difficulties as debts of wages, social insurance, subsidy grant for workers have lost their jobs voluntarily. However, these debts came in 2008, while the objects of loans under provisions of the Decision 30/2009/QD-TTg must be enterprises having difficulties in 2009, so this problem has not been solved yet.

Other support

145. In the past time, the Government has instructed ministries, localities to implement key measures on promoting production, business and export, in concrete:

- Continue carrying out programmes, projects in accordance with Resolution no. 24/2008/NQ-CP dated 28 October 2008 issuing action plan on agriculture, farmers and rural development.

- Implement measures on supporting consumption of industrial products including steel, cement, phertilizers, paper, chemicals, sugar ect.,

- Develop national technology renovation Programme and national programme on promoting productivity and product quality with a view to enhancing competitiveness of Vietnamese enterprises in 2009-2020.

- Develop master plan on export promotion, import control in 2009-2010 period, setting up mechanism to encourage production to replace importing goods.

- Instruct Vietnamese representative oversea offices to find new markets for Vietnamese goods. Promote signing free trade areas (FTA) agreement; implement regional cooperation initiatives, conclude signing Vietnam Japan economic partnership Agreement with Japan (VJEPA); complete initial procedures on special observer in TPP agreement negotiation.

3.2 INTERNATIONAL COOPERATION ON SME DEVELOPMENT

Multilateral SME development cooperation.

150. With the increasing role played in the society and economy, SMEs are becoming key objects and themes being discussed in many multilateral cooperation forums and conferences such as Asia-Pacific Economy Cooperation (APEC), Organization for Economic Co-operation and Development (OECD), The Asia-Europe Meeting (ASEM),

Association of South East Asia Nations (ASEAN) and other organizations that Vietnam is a member of.

151. Official multilateral cooperation activities in these organizations are usually held as Leaders, Ministerial or Senior Officers Meetings. Beside official events on Governmental level, there are events designed for enterprises community and promotion organization such as dialogue forum for enterprise community and governors in nations, symposium, fair, exhibit, investment and trade promotion conference...

152. In general, SME development conferences are usually based on topics such as:

- Exchanging strategies and policy information on SME;
- Built up common policy recommendations within the organization for member economies to follow.
- Develop and implement research projects and capacity building programs for SMEs in member country.

153. The forms and frequencies of events are diversified depending on the operational principals and cooperation structure. In the framework of APEC and ASEAN cooperation on SME, member nations and economies develop a unified cooperation plan through SME Working Group (SMEWG) meetings being organized twice a year. Issues on SME development in APEC is more emphasized in APEC SME Ministerial Meeting (SMEMM) being organized once a year, back to back with SMEWG meeting.

154. Within ASEAN cooperation, member nations are setting up and carrying out ASEAN Policy Blueprint for SME Development – APBSD period 2004-2014 and The Vientiane Action Programme – VAP on SME period 2004-2010. In the 24th SMEWG meeting took place in Malaysia during May 20-21, 2009, 10 ASEAN countries examined and valuated the result of APBSD project after 5 years of implementation; reviewed archived progresses and the impact of the SME promotion effort in each country compared to the situation in 2004 when the project had not been carried out. Assessing the project enable countries to summarize the effectiveness of Government’s assistant activities for SMEs, create opportunities for countries to compare and share experiences. This is the basis to make necessary adjustment for enterprise assistance. According to the typical situation of each country, priority solutions (approach financial assistance, innovate technology, improve legal framework, establish business incubator, form ASEAN SME Development Fund...) is being carried out from now until 2014 to assist SME to overcome financial crisis and recover production. Member nations are rushing to carry out necessary tasks, prepare for the first version of the White Paper and ASEAN SME statistics.

155. Within APEC SME cooperation, based on the perspective and priorities for SME development in different periods, the host economy suggests main theme and sub-themes for the year. Based on that, member economy built up their own country’s agenda and general programs for the APEC region as well as prior projects that follow the theme proposed by the host economy. Singapore, the host economy for APEC 2009, theme proposed for the 16th SMEMM and the 29th SMEWG was: “Helping SMEs Access Global Markets and Overcome Trade Barriers”. Including 3 sub-theme: (i) Market liberalization to enhance market access for APEC SMEs; (ii) Facilitating business collaboration by

encouraging cross-border networks and platforms; (iii) Support for SME internationalization.

Role of Vietnam in SME multilateral cooperation

156. Since 2003, agencies relating to SME in Vietnam have frequently join APEC and ASEAN cooperation activities such as SME Ministerial Meetings, SME Working Group Meetings and related symposiums.

157. Attending these events, Vietnam actively discussed, shared experience with other nations. Vietnam's experience in improving investment and business environment through administrative reform, reform policies on taxation, land, credit, business registration procedures... were highly appreciated at meetings. Vietnam also learn from other countries and economies experiences and best practices on business portal, assistant and credit guarantee funds for SMEs; BDS development, public and private partnership (PPP); Corporate Social Responsibility (CSR), renovation management to strengthen competitiveness of the economy, regional economy integration and role of private sector... which are meaningful and valuable for policy making on SME development in Viet Nam.

158. In 2006, for the first time Vietnam host APEC SME Ministerial Meeting and SME Working Group meetings. Hanoi Declaration on "Strengthening competitiveness on trade and investment" recommended by Vietnam was highly appreciated and supported by member economies. Enterprise Development Agency (Ministry of Planning and Investment) played key role in these activities.

159. Furthermore, Vietnam collaborated with APEC members to create and implement many ideas, projects such as: Daegu initiative, SME Innovation support project, Compliance cost of tax regulation, Ease of Doing Business, One village One product.

160. In the ASEAN cooperation, Vietnam collaborates with other countries to carry out joined project such as: establish SME Service Center; ASEAN common curriculum for SME...

161. Beside multilateral cooperation activities, Vietnam also carries out SME bilateral cooperation activities with several countries and economies. So far, Enterprise Development Agency has signed Memorandum of understanding on SME development with SME agencies of several countries and economies such as: Turkey, Ukraine, Japan, Korea, China...

162. Beside the positive results, SME international cooperation in developing countries in general and Vietnam in particular remained obstacles. The cooperation effectiveness depends on commitment levels; activeness and capability of human resource and available financial resource of each country.

Donor community and SME development in Viet Nam

163. In the past years, developed countries, partners, bilateral and multilateral organizations (summarize as sponsors) have carried out assistant activities in developing countries, emerging economies in Asia, Africa, Latin America, Eastern Europe. Donors take part in many sectors of the society and economy, including issues relate to SME/

private sector development. Most of the funding is in form of Official Development Assistance.

164. There are different types of donors, including large financial institutions such as World Bank (WB), International Monetary Fund (IMF), Asia, Africa, America Development Bank, International Financial Company (IFC)...; typical multinational organizations such as agencies belong to United Nations (UNDP, ILO...), European Union; typical bilateral sponsors such as Australia (AusAid), Belgium (BTC), Canada (CIDA), Denmark (DANIDA), Norway (NORAD), France (AFD), Finland, Germany (KfW), Italy, Japan (JICA, JBIC), Switzerland (SIDA), Sweden (SDC, SECO), Britain (DFID) and America (USAID)...; several multi trust funds receive donor capital from countries, international organizations operate for general aim, international non-government organizations such as Oxfam (Quebec, Britain, Hong Kong, Belgium...) also create assistant activities for SME/private sector all over the world.

165. In Vietnam, donors have implemented many projects and programmes on SME development, in particular since 2000. Donors have different assistant types, contents and purposes; as the result, managing method, supervision mechanism, scope of activity, approaching method, locations, assistant objects...in programs and projects are various. However, the role of Vietnam organization or agency in assistant programs and projects are becoming more and more important, especially in self controlling, decision making and responsibility.

166. SME development activities recently by donors focus on:

- Improving legal framework on business and investment by removing market entry barriers;
- Enhancing implementation of legal regulations at local level.
- Enhancing access to resources such as: land, financial, credit and human resources for SMEs.
- Promoting Business development services (BDS) for SMEs
- Strengthening voice of enterprises community to the authority at Governmental and Provincial level.

167. Most of the technical assistant projects executed by Enterprise Development Agency, Ministry of Planning and Investment recently such as: Business Sector Program Support (SSPS) by DANIDA, Vietnam-Germany SME development program sponsored by GTZ, Vietnam-EU Private Sector Support Program (VPSSP) by EU...have components on business environment. Some projects chose from 3 to 9 pilot provinces on pilot basis do research on start up procedure, investment licensing, construction licensing, land management...Activities in projects has improved provincial government attitude, create friendly business environment which is convenient for enterprises.

168. Monitoring and evaluation (M&E) methods can be implemented in accordance with log-frame designed in project document; separate log-frame; annual, mid-term, final monitoring missions; regular audit by donor and local partner, or by all of the above methods. Every M&E method has its own strengths and weaknesses, for example logic

frame, policy matrix M&E log-frame are specific, easy to measure but easily out of date, unable to update the new situation especially when the project is carried out in many years. Advantage of consultation mission is up to date with the situation, discuss specific problem. However the mission length is usually short (1-3 weeks) so in some cases, international mission experts are lack of general assessment on the project's task. In a few countries in Africa where the Government capacity is limited, result of assistant program is rather poor due to finance leakage and corruption.

169. On the scope of activity, donors design content for SME development program according to different scopes. SME development content can be one sub-program in a whole project on hunger elimination and poverty reduction, industry/agriculture development; or it can be a project on other subject such as: SME power saving assistance, strengthening SME competitiveness capacity training, micro finance approach improvement...In order to carry out a general assistance and reduce project management cost, donors can also locate their assistance in a more effective partner country under the form of approaching program where there are many sub-program, sub-project that have different impact on SME development.

170. On the aspect of *location or interfere level* in sponsoring, there are two main trends in choosing sponsor activity scope: muster in the center/ national scope, or muster in region/ provinces. Driving assistant activity toward the center sector is considered to be more convenient for the sponsors since there is profound effect, better partners' capacity. However these assistance are limited to activities relate to policy making or implementing policy in narrow scope. There are more difficulties in carrying out assistant activity within the region (provincial level) because of limited provincial governor and partner capacity, inconvenient infrastructure to proceed activities, however there is advantage of being able to assist enterprises directly and therefore building up experience lesson to be learn for other provinces.

171. Many bilateral sponsors carry out trade oriented projects and pay attention to regions that with enterprises contribute to bilateral trading relationship, investment cooperation and take part in making these regions to become a leader economy that assist nearby provinces to develop. Some others, especially Non-government Organization, focus on agriculture regions where there are a many beneficiaries and they can contribute to the hunger elimination and poverty reduction effort in almost all poor regions, inconvenient location.

172. On the aspect of *partnership*, there are various choices of project partner. Sponsors can choose a Government Agency, enterprises association, social organization, research institute or other organization depend on the official function, procedure defined in the law, approval capacity or base on the relationship in the past.

173. Depending on the sponsors, the project's direct beneficiary can be agency manage SME development, associations, service suppliers or the SMEs themselves. Some projects provide specific support for group of determined beneficiary such as: the business women, small import and export enterprises, china household producer, some industry with export potential...

174. For the best, the most effective sponsor co-ordination, it is important to examine co-ordinate sponsor effort on national and provincial level in the period of forming and building up the idea for project. Paris Statement on Aid Effectiveness signed in March,

2005 and similar documents have helped to compound the province's requirements with other attention, capacity and partner's combine sources.

Strengthening cooperation activities

175. It can be said that, after 10 years participating in SME regional and international cooperation activities, there have been considerable results for SME agencies and Vietnam SME community. Capacity of officers doing this job have been improving step by step, many experiences and international best practice were gained through cooperation assistant activities for domestic policy making.

176. Effective ODA programs, projects carried out recently play an important role in assisting Government to improve business environment, enhance SME competitive capacity, assist more financial approaching, innovate technology and integrate into global production chains. International cooperation activity in SME development has gradually narrow the development gap between Vietnam and other countries in the region and international, attain the State and Party's general goal in diplomacy.

177. To strengthen the effectiveness of cooperation activities on SME development, up to the available resources and priorities in each period that Vietnam need to consider following recommendations:

- As above mentioned, the collaboration effectiveness depends mainly on each nation's commitment level in cooperation. Therefore, first, we need to enhance our perception of SME international cooperation role. It is important to perceive clearly and coherently that the sponsors' assistance is aiming to assisting Vietnamese agencies and organization to perform their political, specialized function and procedure better in the perspective of lacking of capacity, approaching method, knowledge and other resources.
- Secondly, for an effective collaboration, the Government need to allocate sufficient resources for the cooperation activities as well as have plan to maintain the results and capacity after the project end.
- Thirdly, human resources play key role in deciding the success of SME international cooperation. At present, SME international cooperation is weak due to lack of human resource and limited capacity in professional level and foreign language ability. Therefore, it is necessary to supplement officers, enhance professional capacity, foreign language ability for officers working in enterprise development cooperation including SME.
- Fourth, the coordination, cooperation between agencies, organizations, enterprises community is a necessary manner for cooperation with sponsors, bringing practical results for enterprises.
- Besides, in the future, Vietnam need to strengthen bilateral cooperation within APEC forum (especially with large economy as America, Japan, China, Korea...) in order to enhance capacity for SME promotion agencies and quality of SME development programs. Vietnam need to be more active in putting forward, implementing ideas, general projects to upgrade the country's reputation in collaboration progress and utilize more international sources for SME promotion.

- Finally, Enterprise Development Agency (EDA), Ministry of Planning and Investment need to perform better role of SME promotion and development focal point agency. The focal role require EDA to have a general, thorough understanding of SME development in the country; to compound, coordinate and orient the assistant resource so that it is suitable and adapt the enterprise community demand. At the same time, EDA need to step by step enhance implementing agency's capacity in the whole country.

3.3 CURRENT CONSTRAINTS AND SUPPORTING DEMAND

175. Remarkable progress has been achieved in promoting business and SME development over the decade since the Asian financial crisis 1997. The contribution of the private sector to GDP has increased steadily as the number and average size of firms have increased rapidly. Private firms have generated most of the new jobs created over the last decade. The employment generated by private firms has been a key factor in Vietnam's success in reducing poverty. Trade and foreign investment have also grown rapidly, and ratios of trade and foreign investment to GDP in Vietnam are now amongst the highest in the region and the world.

176. Despite recent progress, dialogue with the business sector makes it clear that significant bottlenecks to business development remain. Firm level surveys²³ and private public dialogue in Vietnam indicate that firm level perceptions of binding constraints include:

- (i) effective macro policy enforcement;
- (ii) constraints to competitiveness resulting from:
 - i. administrative weaknesses and regulatory weaknesses;
 - ii. infrastructure weaknesses;
 - iii. skills development and labour relations;
- (iii) access to finance and capital (and to improve corporate governance

177. Businesses are also concerned about the global economic crisis and rising protectionism. There is also growing concern about the environment (including climate change impacts), and recognition about the need to meet increasingly stringent quality, social and environmental standards to respond to growing international demands.

178. The Government's goal is to help reduce poverty by addressing these bottlenecks to facilitate the development of all businesses. The Government also aims to establish a more competitive, expanded, and diversified SMEs sector, and to boost business investment and employment. The Government recognizes that an ideal business environment is one that maximizes mutually beneficial linkages between different types of firms in different areas.

Business Investment Environment

²³ E.g. GSO surveys, the GSO/WB Investment Climate Survey and VBF Investors Perception Survey.

179. The resurgence of inflationary pressures in 2007 -- and the global economic crisis in 2008 -- increased business concern about the need for greater transparency in macro management processes and weaknesses in the quality and publication of economic data. More generally, businesses want more equitable access to public information and to public policy making processes. They are also concerned that policies for SME development often developed in an ad hoc manner, with inadequate coordination between various government and donor supported activities. And despite gradual improvements Vietnamese businesses remain concerned about (i) the frequent changes in policy; (ii) poor quality of regulations with frequent inconsistency between regulations; and (iii) poor and inconsistent regulatory enforcement.

180. Uncertainty in the investment environment directly increases the cost of investing, makes it harder to make efficient and profitable investment decisions, and adds to investment risk. Businesses tend to focus on short-term gains, rather than longer-term investment opportunities. Short-term thinking makes it difficult for firms to access technology and international markets, and to integrate into global production chains. Consequently, growth in employment and output falls below potential growth levels. Marginal areas for investment (remote and isolated areas) are worst affected, contributing to regional disparities and growing income inequities.

181. High compliance costs add to the costs of all firms, and this leads to inefficiencies, and sub-optimal levels of investment and employment. Because many compliance costs are fixed costs, they impact particularly hard on SMEs which have to spread these fixed costs over relatively smaller revenues. Women and ethnic minorities are particularly badly affected. Thus, a weak administrative and regulatory environment contributes to inequities. The net result is less potential and reduced efficiency, reduced jobs, increased regional imbalances and inequality, and slower progress in reducing poverty. In addition, poor enforcement and/or badly designed policies mean that many intended policy objectives are not realized.

Workforce Skills and Labor Relations

182. Prior to the global financial crisis, a pressing concern of investors was the escalation of disruptive labor disputes and growing shortages of skilled workers. The economic slowdown and increase in labor retrenchments have reduced immediate pressures, but underlying constraints remain. Addressing these constraints will be particularly important if Vietnam is to attract investments in higher value added production which typically require higher skills.

183. Weaknesses in labor policy, regulations and skills were emerging as a major impediment to investment growth. Inconsistencies and lack of clarity in the labor code and related legislation caused confusion and this, combined with weak labor relations institutions, contributed to delays in resolving industrial disputes, and increased the costs of industrial action to workers and investors. Poor information about the rights and obligations of workers and investors exacerbated problems. Restrictions in the Labor Code, social security arrangements, and a lack of a national system of skill accreditation limited labor mobility. The net result is suboptimal levels of investment and employment, and reduced opportunities to move to higher productivity employment.

Access to Finance

184. Despite tremendous progress in terms of increased aggregate bank lending to private firms, access to finance is consistently identified as a bottleneck to SME and business development. This perception is shared by SMEs in most countries, including industrialized economies. Vietnamese firms are particularly concerned about the difficulty of raising medium to long-term (debt and equity finance) necessary for investment and growth. In addition to the fact that many SMEs lack convincing business development plans, finance providers are often reluctant to provide financing to SMEs because of: i) the higher perceived risk of lending to SMEs (particularly young SMEs with little or no financial statement); ii) the higher ‘transaction costs’ of providing funding to smaller entities, relative to larger firms; iii) limited assets to provide as loan collateral; and iv) the frequent lack the accounting records needed to demonstrate sustained cash flows that financiers typically expected from eligible borrowers.

185. Difficulties in accessing finance are a constraint to increased investment, production and employment. Smaller firms are particularly disadvantaged in accessing finance by policies that limited the flexibility of financiers to price for risk in setting variable interest rates. Limited opportunities to raise equity finance are also a major constraint to the growth and development of potentially dynamic firms. Addressing these constraints could play an important role in facilitating the growth and development of smaller firms, and in allowing domestic firms to compete more effectively in all markets.

SECTION IV – THE PROSPECT OF SME SECTOR

SME DEVELOPMENT: LOOKING FORWARD

186. This report has highlighted the tremendous capacity of Vietnam's SMEs to create, renovate, develop and grow over the last couple of decades. The contribution of SMEs to the Vietnamese economy has increased steadily as the number and average size of firms have increased rapidly. SMEs have generated most of the new jobs created over the last decade. And this has contributed to unprecedented reductions in poverty.

187. Despite these achievements, some households remain in poverty and average income levels are still low. Growing numbers of Vietnamese workers are shifting from employment in agriculture to industry and services as they look for higher income employment. SMEs are playing – and will continue to play -- a key role in generating this employment. In order to generate more and higher productivity employment, SMEs need better infrastructure, a more skilled workforce, stronger market institutions, and better access to information and technology. Other countries continue to renovate, reform and become more competitive. Vietnamese SMEs and the Government recognize that more can be done to improve the competitive position of Vietnamese business. The aim of this section is to outline key areas which expectedly have positive changes to SME sector.

188. Dialogue with SMEs indicates that they want to ensure that Government development strategies and policies are developed in a more systematic manner, with better coordination between various government and donor supported activities. They want more timely action on key initiatives. Ensuring adequate financing of agreed initiatives will be crucial in ensuring timely action

189. The Government is reviewing of implementation of last SME five year plan in consultation with the related parties, with critical assessment of the tangible outcomes and effectiveness of the various initiatives. Governmental agencies will work closely with SMEs and the broader business sector in conducting this review and in developing proposals for SME development during the next five year plan. The aim is to develop a more practical, outcomes-oriented plan. The Government is also working with experts from key development partners, such as ADB, IFC, Japan, UNDP and UNIDO in formulating internationally competitive SME development strategies

190. The Government's ongoing commitment to SME development is reflected in the recently approved Decree 56/2009/ND-CP replace to Decree 90 on SME Development. This decree, which was drafted in consultations with SME representatives²⁴, provides a stronger framework for the Government to facilitate SME growth and development. The decree details priority SME development programs and funding arrangements, with clearer demarcation of institutional responsibilities and accountability. The challenge in coming years is to ensure effective implementation of this decree.

191. National SME agency supports measures to promote: (i) more predictable/transparent economic policy environment; (ii) to provide businesses the overall medium term government strategies and policies on private sector and enterprises development; and (iii) to better protect investor rights. EDA will continue to facilitate

²⁴ Decree No. 56/2009/ND-CP (30 June 2009), "Stipulating Support Measures for SMEs".

dialogue between SMEs and Government on macro stability issues to raise awareness of the impacts on SMEs and to ensure that SME concerns are addressed in macro policy making. EDA will review the effectiveness of the various Government initiatives to support SMEs cope with the recent global financial crisis.

192. The Ministry of Justice (MoJ) has formulated a draft of a new Law on Access to Information which is expected to be approved by 2010. Government agencies, including MPI, will develop strategies to ensure effective implementation of the provisions of this law, including requirements for transparent and systematic publication of key economic data on a regular basis. This should ensure that SMEs have more equitable and timely access to basic economic information.

193. Government has formulated a draft of amendments to the Law on Vietnam State Bank with the aim to provide more power on decision making to SBV in term of currency policy and inflation rate target. This proposed reform will particularly benefit domestic businesses.

194. Recent reforms have helped lay the foundations for change, with improvements in business registration, and policy changes aimed at institutionalizing regulatory impact assessment and consultation processes. Tangible progress has been made with administrative reforms and with pilot programs to introduce one-stop shops (OSSs) for business registration, investment licensing and land registration/construction permits. The challenge now is to develop the capacity to implement these initiatives.

195. The Ministry of Planning and Investment (MPI) is now committed to establishing a national business registration system which will consolidate provincial level business registration information into a national database that will be searchable throughout the country. When operational, this system will allow firms or individuals considering transacting with a firm to confirm basic information about that firm electronically from anywhere in the country. This will reduce business transaction costs, and also increase incentives for firms to comply with requirements regarding regularly updating registration information. Firms will also be in a better position to develop and protect brand names under the system. The MPI has also formulated a draft of amendments of Decree 88/2006/ND-CP on business registration in line with new business registration system. The Government is also implementing a national program to improve the capacity and service quality of provincial BROs.

196. Another key ongoing Government initiative is “Project 30” on administrative procedures reform which aims to undertake a stock-take of all ministerial and provincial level administrative procedures, to eliminate all redundant procedures, to eliminate inconsistencies, and to streamline remaining procedures. This should greatly reduce business compliance costs and encourage increased and more efficient investments²⁵. Domestic and foreign business associations’ representatives are included on the Steering Committee advising Project 30. The Government strategy is to simplify regulations and improve enforcement to ensure that policies and regulations achieve clearly stated policy objectives.

²⁵ <http://www.thutuchanhchinh.vn>. Project was approved under Decision 30/QĐ-TTg (10/1/2007) approving the Master Plan for Administrative Procedures Simplification in the fields of state management for the period 2007-2010

197. The Government has also moved to ensure greater quality control over the issuance of new regulations Through National Assembly approval of amendments to the “Law on Laws”. This Law took effect from April 2009²⁶, following the issuance of Decree 24/2009/ND-CP dated 5 March 2009 on implementing regulations²⁷. The Government is now working with some donors (ABD, GTZ, USAID and UNDP) on detailed guidelines to implement these regulations²⁸. The key short to medium term challenge is to finalize a supervision and report system on the quality of compliance.

198. One more issue on law enforcement is businesses have not yet considered arbitration as a mechanism for contract enforcement. Foreign businesses particularly concern about this weakness, and this discourages them from engaging in contractual relationships with domestic firms. SMEs are particularly affected, because there is a large fixed cost element to contract enforcement. Efforts are being made to draft a new, more flexible Arbitration Law allowing foreign arbitrators operate and authorize Arbitration in term of giving provisional judgments. This draft is expected to be submitted for National Assembly approval by 2010.

199. In terms of trade facilitation, priority is given to reforming administrative procedures and institutions to facilitate the development of trade and logistics services in line with the ASEAN agreements on establishment of an ASEAN single window (ASW)²⁹. The Government recently approved a Plan on customs reform and modernization 2008-2010, and the General Department of Customs (GDC) is now finalizing a strategy for customs modernization to 2020 submitted to Government for approval. Initiatives to ensure compliance with ASEAN agreements and to move towards an electronic customs system are important priorities. The GDC is currently implementing a pilot E-Customs program and is formulating a new decree on customs procedures to facilitate broader use of e-customs. This should help with ongoing GDC efforts to reduce corruption in customs as outlined in Directive 1426/CT-TCHQ (30/08/09) on measures to reduce corruption in customs administration.

200. The Government is implementing actions to further develop the legal framework for labor relations, labor relations institutions, the information base for labor policy and planning, and vocational training. Proposed amendments to the Labor Code -- that aim to provide investors with adequate flexibility to respond to rapidly changing technology and market conditions, while also providing incentives for investment in human skills development, and ensuring that the basic rights of employees are protected – are national priorities.

201. The Government is developing a program of information dissemination and education on labor code (e.g., the rights and obligations of employees and employers) as required under Prime Minister’s Decision 37/2008/QĐ-TTg (12/03/08) on the program to popularize legal education. However, financing this education program remains an issue.

202. Another key Government initiative is to establish institutions that will help in mediating in industrial disputes at different levels. The program will aim to help develop

²⁶ Law17/2008/QH12, Law on Promulgation of Legal Documents, approve June 2008.

²⁷ Decree 24/2009/ND-CP (5/3/09).

²⁸ Support on building the guidelines and efficiency in some projects supported by ADB, GTZ, USAID, and UNDP.

²⁹ “The ASW constitutes a facility that enables a seamless, standardized and harmonized routing and communication of trade and customs-related data and information for customs clearance and release from and to National Single Windows.” Under the ASEAN agreement (signed 9 December 2005) Vietnam will implement the ASW by 2012.

policies, laws and institutional mechanisms to ensure more effective and less disruptive employee-worker relations, to better protect the rights of employees, and to strengthen skills development. The Government has already established a National Committee for Labor Relations and centre to support improved labor relations, and is drafting amendments to Decree 113/2004 (16/4/04) on administrative sanctions for labor law violation to provide clearer guidelines for dealing with illegal strikes.

203. The Government has been introducing reforms to allow commercial banks to evaluate risk, and thereby encourage banks lending to small enterprises. The cap on consumer lending has already been lifted³⁰. The Government has developed proposals for amendments of Law on Vietnam State Bank for consideration by the National Assembly, which would allow SBV to set (and adjust when necessary) the interest rate cap on bank loans, as part of its monetary responsibilities. This draft law is expected to be discussed by the National Assembly in late 2009, and approved in 2010

204. A Government also aims to identify and address major bottlenecks to increased transaction based (ie. non-collateral based) lending. The Government is to conduct a review of regulatory and non-regulatory constraints to increased non-collateral based transactions which commercial bank lending to SMEs, including factoring and leasing. This review is to be used as input to drafting of a new commercial banking law (expected to be approved in 2010). The Government has also enacted new regulations aimed at increasing SME access to leasing finance³¹. The Government is also developing the foundations for the sustainable provision of credit guarantees to improve SME access to debt finance.

205. The Government also aims to promote greater equity financing for larger SMEs. This should facilitate better access to equity finance for medium to large firms, and should contribute to better governance and protection for investors. The new UPCoM secondary market for unlisted public companies in Hanoi commenced pilot operations in June 2009. The Government has already issued a Decision on the organization and management of UPCoM³², and a Decision that formally upgrades HaSTC to full stock exchange status³³.

³⁰ SBV Circular 01-2009-TT-NHNN, January 2009. The commercial interest rate cap of 1.5 times the base rate is cited in the Civil Code, presumably intended to thwart unfair usury practices by loan providers.

³¹ Decree 95/2008/ND-CP (August 2008), which came into effect in late September 2008

³² Ministry of Finance Decision 108/2008/QD-BTC (20 November 2008).

³³ Ministry of Finance Decision 01/2009/QD-TTg, (6 January 2009).

CONSLUSION

213. The biggest global economic recession within 10 recent years has taken a heavy toll on Vietnamese SME sector. However, timely support from the Government and the great effort of each enterprise helped to alleviate the effects of the crisis. The economy suffered slow down but did not fall into recession, GDP growth reached 5,32% in 2009.

214. Besides the effort of Government, authorities and enterprise community remain some constraints need to be resolved to improve environment for SMEs to start-up, enhance their strength, grow and develop in the coming years. Much focused effort is needed to enhance the capability and opportunities for SME to learn and compete.

215. Large scale economic downturn has caused obstacles to SMEs especially to export driven SMEs. However, this creates chance for SMEs to challenge their capability, take advantage of human resources in the most efficient way in a great attempt to break out and achieve high growth.

216. On the Government side, 2010 is expected to mark a new period in the progress of SME development. The Decree 56/2009/ND-CP on supports for SME development has been promulgated to replace the Decree 90/2001/ND-CP. Enterprise Development Agency, Ministry of Planning and Investment is preparing report on implementation of SME Development Plan 2006-2010. The improvement in the legal framework will facilitate the development of SMEs.

217. Together with the effort of ministries and donor support, SME sector will develop not only in term of quantity but also in quality and competitiveness in the open context of WTO. As the development of the SME requires the cooperation of Government bodies and all stakeholders, Ministry of Planning and Investment will try to fulfill its coordinating and cataclinal role to create a favorable environment for Vietnamese SMEs.

218. Ministry of Planning and Invetment is grateful for the supports and inputs received thus far which aim to create a more favorable environment for SMEs. Further, we look forward to working with all stakeholders in the future to create an increasingly robust and dynamic SME sector in Vietnam./.