

# **Policies for Developing Small and Medium Enterprises in Vietnam**

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## **I. The SMEs Development Policies of Vietnamese Government**

### ***1. A HISTORICAL PERSPECTIVE***

In recent years, Small and Medium Enterprises (SMEs) have contributed considerably Vietnam's economy. In 2005, there were 109,738 SMEs, which account for 96.81 percent of all enterprises in Vietnam. SMEs employed 2528623 employees, representing 40.5 percent of the total number people employed by enterprises in Vietnam. In the same year, SMEs contributed 54476 billion VND, comprising 34.33 percent of tax and fees paid by enterprises in Vietnam<sup>1</sup>.

However, SMEs in Vietnam have experienced difficulties in their development. The centrally planned economy has been in force in North Vietnam since 1954 and in the South of Vietnam since 1975. The Government has mobilized all the resources to develop heavy industry. Private ownership in Vietnam's economy has been eliminated. There was no room for private sector development. State-owned Enterprises (SOEs) and Cooperatives have played a decisive role in the national economy.

Domestic economic difficulties, the decline of assistance from the Soviet Union and East European countries, and changes in international relations forced Vietnam Government to transform its economy. At its Sixth Party Congress in 1986, the Vietnamese Communist Party launched the country's Economic Renovation (Doi Moi), marking the starting point of its reform and

open-door era. Since 1987, foreign investors have been welcome in Vietnam through the National Parliament's approval of the Law on Foreign Investment. The household-contract system implemented in 1988 under Decree No.10 has deregulated the economy in rural areas. In 1991, the private sector in Vietnam was legally recognized through the Law on Private Enterprises and the Law on Companies. Following that, the amended Constitution in 1992 allowed a "multi-sector economy in accordance with the market, based on state management and socialist orientations". The development of domestic enterprises has been promoted through the Law on Encouraging Domestic Investment adopted in 1994. In 1998, policies to speed up the equalization of SOEs were proposed. An agenda for improving economic management policies and streamlining administrative procedures to facilitate the development of SMEs was put forward by the Ministry of Planning and Investment (MPI) in 1999.

However, the business environment for the development of SMEs, mainly in the private sector, had been unfavorable. In fact, the Government still gave preferential treatment to SOEs over private sector entities. Government policies, regulations and laws on SMEs and the private sector were unstable. SMEs deal with great obstacles in mobilizing capital from financial and banking systems, and limited access to land. Moreover, SMEs face the hurdle of poor infrastructure, including inadequate access to water, electricity and the slow development of new facilities that hamper business activities.

Since 2000, the business environment for the development of SMEs has improved dramatically. The New Enterprise Law promulgated in June 1999 that took in January 2000 reduces administrative procedures for enterprises. More importantly, in November 23, 2001, for the first time since 1986, the Vietnamese Government promulgated "Supporting Policies for SME development" with Decree No 90/2001/ND-CP establishing an official framework for government support in the development of SMEs in Vietnam. Especially, at the fifth session in 2002, the Central Committee IX issued Resolution 14-NQ/TW dated March 18 to confirm Vietnamese Communist Party's efforts to continue to reform economic mechanisms and policies in order to encourage and to facilitate the development of the private sector.

## **2. CURRENT POLICIES**

According to Government Decree No 90/2001/ND-CP, dated 23 November 2001, SMEs in Viet Nam are defined as "independent production and business establishments, which are registered as business according to the current legal provisions, each with registered capital not exceeding VND 10 billion or with an annual employment labor not exceeding 300 people. These two criteria on capital and labor may be applied in a flexible manner based on the basis of the concrete socio-economic situation of each branch or locality. (Article 3- Decree No90). Under Decree No90, SMEs include enterprises set up and operating under the Enterprise Law and the State Enterprise Law, cooperatives set up and operating under the Cooperative Law, and business households registered under Government Decree No. 02/2000/ND-CP of the Government of February 3, 2000 on business registration (Article 4 Decree No90).

Under Decree No90, the Vietnamese Government has identified developing small and medium-sized enterprises (SMEs) as an important task in its strategy for socio- economic development and acceleration of national industrialization and modernization. The view of the State on SMEs is clearly expressed through the State's encouragement and provision of favorable conditions for SMEs to bring into play their activeness and creativeness, raise their managerial capability, develop science, technologies and human resources, expand their cooperative ties with enterprises of other forms and increase their profits as well as competitiveness in the market; develop production and business, create jobs and improve the laborers' lives (Article 1- Decree No90).

The Vietnamese Government's supporting policies consist of investment encouragement, establishment of the credit guarantee fund for SMEs, assisting SMEs to enhance their competitiveness by providing opportunities for SMEs to access information on markets and prices and assist them to expand markets and sell their products, export promotion, on information, consultancy and human resource training.

According to Decree No 90, SMEs are placed under comprehensive management. This Decree established a Department for SME Development under the MPI for the first time to assist the ministry in performing the

function of State management over SME development promotion. Moreover, the Decree also set up the SME Development Promotion Council chaired by the Minister of the MPI, which is responsible for advising the Prime Minister on mechanisms and policies to encourage the development of SMEs.

The members of the SME Development Promotion Council come from various ministries. There are representatives from MPI, the Ministry of Industry, the Ministry of Finance, the Ministry of Agriculture and Rural Development, the Ministry of Construction, the Ministry of Communications and Transport, the Ministry of Trade, Ministry of Science, Technology and Environment, the Ministry of Transport, the Ministry of Education and Training, the Ministry of Labor, War Invalids and Social Affairs, and the Ministry of Justice. The SME Development Promotion Council also includes representatives of the People's Committees of Hanoi, Ho Chi Minh City, Hai Phong and Danang, the most dynamic economic cities in Vietnam. Business associations such as the Viet Nam Chamber of Commerce and Industry, the Central Council of the Union of Vietnamese Cooperatives and a number of enterprise associations also have representatives in this Council. In particular, this Council's membership also includes some a number of economic, scientific, technological and training experts. In fact, it took quite a long time to activate this new mechanism. After only fourteen months, Decree No 90 was issued and the SME Council was officially established on January 17, 2003 under Decision No.12/2003/QD-TTg by the Prime Minister. Two months later, on 24 March, 2003, the President of the SME Council promulgated the Regulation of Activities of SME Council under Decision 185/QD/BKH to stipulate the functions, tasks, mandate, operational mechanism, and working relations of the SME Council in detail.

Under Decree No 90, the SME Technical Support Centers under the Department for SME Development) were set up to provide support to both authorized organizations of the government and SMEs. These Centers advise the Department for SME Development and consult on technological and technical matters, renovation of equipment, guidance for technical management and maintenance of equipment, creating conditions for SMEs to acquire new technologies and equipment. On May 12, 2003, the Minister of MPI issued Decision No 290/QD-BKH to officially establish the SME Technical Support Centers in Hanoi, Danang and Ho Chi Minh City.

The SME Technical Support Centers have the following mandates (Article 2 Decree No90):

- (1) Providing technical assistance and advice to SMEs on investment for technology, application of new techniques application, innovation, and improvement of product quality;
- (2) Organizing training and courses on technical and technological management by the request of SMEs;
- (3) Promoting the cooperation and linkages among SMEs and large companies;
- (4) Acting as focal point in providing and disseminating information on techniques and technology for SMEs;
- (5) Developing a database of consultants on techniques and technology to meet the demands of SMEs;
- (6) Engaging and collaborating in research of technology application, technology transfer, assisting SMEs in accessing new technology (including the secondary technology and new products);
- (7) Carrying out other duties as assigned by the General Director of ASMED and the Manager of the Department of Personnel and Organization.

## **Establishing Credit Guarantee Funds for SMEs**

Access to funds is a challenge the development of SMEs. Therefore, to meet the demand of SMEs for capital, and follow in Decision No 90, the Vietnamese Government set up Credit Guarantee Funds for SMEs. On December 20, 2001, the Vietnamese Prime Minister signed Decision No 193/2001/QĐ-TTg on issuing Regulation on the Setting up, Organization and Operation of Credit Guarantee Funds (CGFs) for SMEs. CGFs were set up and managed by the People's Committees of the provinces and centrally-run cities in order to provide credit guarantee to SMEs (Article 1).

CGFs are non-profit financial institutions ensuring the recovery of capital and self-payment of expenses. They have the status of charter capital, balance sheet and their own seal and may open accounts at the State Treasury and domestic commercial banks. CGFs are exempt from tax payment and State budget remittances in activities providing credit guarantee to SMEs (Article 2). On June 25, 2004, the Vietnamese Prime Minister issued Decision No 115/2004/QĐ-TTg on Amending and Supplementing the Regulation on the Setting up, Organization and Operation of Credit Guarantee Funds for SMEs, which was promulgated together with the Prime Minister's Decision No 193/2001/QĐ-TTg of December 20, 2001 with a change in sources of CGFs operational capital.

**Box 1: Sources of CGFs's operational capital** (Decision No 193/2001/QĐ-TTg)

1. Starting capital, including:
  - a. Capital allocated from the budget of a province or a centrally-run city.
  - b. Capital contributed by credit institutions;
  - c. Capital contributed by enterprises;
  - d. Capital contributed by production and/or business associations, organizations representing and supporting SMEs.
2. Lawful aid capital (including ODA capital) provided by organizations and individuals inside and outside the country for the purpose of developing SMEs, cooperatives as well as agricultural, forestry and fishery development programs.
3. Capital supplemented from the results of operation of CGFs as prescribed.

CGFs are set up when they meet the following conditions: (1) Having sufficient starting capital of at least VND 30 billion; (2) Having a list of the members of the Management Council, Control Board and Executive Board with full civil act capacity and professional qualifications suitable to the operation requirements of the CGF; (3) Having a draft charter and organizational and operational plan of the CGF, which accord with the provisions of this Regulation and other legal provisions.

The CGF's Management Council has the following tasks and powers: (1) To submit to the president of the People's Committee of the province or centrally-run city for ratification, supplement and/or amendment the CGF's charter and operational mechanism; (2) To adopt the CGF's operational orientation, financial plan and final account settlement reports; (3) To perform tasks and exercise powers as provided for in the charter of the CGF; (4) To supervise and inspect the CGF's activities according to its charter and the decisions of the Management Council; (5) To decide on the appointment, dismissal, commendation, reward and discipline of members of the Control Board; (6) To examine reports of the Control Board and settle complaints as prescribed. To be entitled to use the CGF's seal to perform the Council's tasks and exercise its powers (Article 10)

A CGF shall provide grant credit guarantees to the following types of : (1) Enterprises of all economic sectors, which are classified as SMEs according to law provisions; (2) Cooperatives and unions of cooperatives; (3) Individual business households as prescribed by the Government's Decree No. 02/2000/ND-CP of February 3, 2000 on business registration; (4) Farm owners, peasants' and fishermen's households' that carry out projects on aquaculture, offshore fishing, planting of industrial trees or husbandry... (Article 14)

**Box 2: Conditions for being granted credit guarantee**

- (1) Having feasible investment projects and production and/or business plans, being capable of repaying loan capital;
- (2) The total value of the CGF's properties mortgaged or pledged at credit institutions is equal to at least 30% of the loan value as prescribed by law;
- (3) Owing no tax debts or overdue debts to credit institutions or other economic organizations.

Credit guarantee levels are stipulated in this Regulation. According to the Regulation, a CGF shall provide credit guarantees equal to no more than 80% of the difference between the loan value and the value of the customer's

properties mortgaged or pledged to credit institution(s). The credit guarantee level for a customer shall not exceed 15% of the capital of the CGF's owner.

On September 29, 2004, the Minister of Finance issued Circular No. 93/2004/TT-BTC, providing guidance on the regulations on setting up, organization and operation of credit guarantee funds for small - and medium - sized enterprises. According to this Circular, the conditions for setting up a credit guarantee fund include:

- Having a scheme on setting up of a credit guarantee fund already approved by the president of a provincial/municipal People's Committee. The scheme contents must prove the credit guarantee demands of small- and medium-sized enterprises operating in the locality, and a feasible plan for the organization and operation of the credit guarantee fund for the first three years.
- Having sufficient starting capital of at least VND 30 billion allocated by the provincial/municipal budget and/or contributed by organizations and individuals at home and abroad.
- Having a list of members of the management council, the control board and the executive board, who have the professional qualification, university degrees and at least 5 years' experience of working in the economic or financial sector.
- Having a draft charter compliant with the provisions of Article 6 of the Regulation on setting up, organization and operation of credit guarantee funds, promulgated together with the Prime Minister's Decision No. 193/2001/QĐ-TTg and other legal provisions.

Within 6 months after the presidents of the provincial/municipal People's Committees have issued decisions on their establishment, the concerned credit guarantee funds are required to commence their operations. At least 30 days before commencing its operation, the credit guarantee fund must publish in a newspaper or announce through the mass media its office address for three consecutive issues its setting-up decision, operational contents and scope, and its clients.



On February 20, 2006, the Governor of the State Bank of Vietnam issued Circular 01/2006 on capital contributions to Credit Guarantee Funds for SMEs. This Circular provides instructions on the contribution of capital to set up the Credit Guarantee Fund for SMEs by credit organizations which are, as follows:

- a) The amount of capital contribution from a credit organization to a credit guarantee fund can not exceed 11% of the starting capital of the credit guarantee fund
- b) The total amount of capital contribution to the credit guarantee fund and other commercial investment can not exceed 40% of the starting capital and reserve fund of the credit organization
- c) A representative must be appointed the preparatory committee to set up the Credit Guarantee Fund upon request of the provincial/municipal People's Committee
- d) The Management Council of the Credit Guarantee Fund should include representatives reflecting the capital contribution by the credit organization as per the Decision of the Chairman of the provincial/municipal People's Committee.
- e) The credit organization should cooperate with the credit guarantee fund to develop the guarantee process and procedures. Cooperate with the credit guarantee fund to inspect and monitor the process of using loans and debt payment of the debtors, ensuring the safety of the capital

## **Trade Promotion Programs**

The Vietnamese Government has designed trade promotions programs to provide business information to SMEs. On September 27, 2002, the Minister of Finance issued a Circular on Guidelines for Expenditures in Support of Trade and Export Promotion Activities. According to this Circular, the State shall annually put aside a budgetary amount based on export turnover to

support trade and export promotion activities under national key programs (trade promotion programs). It aims to:

- Create conditions for enterprises to access export markets.
- Improve the competitiveness of export products.
- Raise export-marketing knowledge and skills.
- Diversify exports, reform the commodity structure and expand export markets.
- Propagate Vietnamese exports.

On the basis of the State's export orientation for each period, the Ministry of Trade shall assume the prime responsibility for synthesizing the news of various ministries and agencies, and evaluating and proposing key national trade promotion programs, clearly stating their content, implementation duration, managing agencies and funding estimates, for submission to the Prime Minister for approval.

Based on the financial capacity of local units, the presidents of the provincial/municipal People's Committees can set up local trade promotion funds or export support funds for spending on export promotion, including trade promotion activities prescribed in the Circular mentioned above. The provincial/municipal Trade Services shall assume the prime responsibility for formulating key local trade promotion programs for submission to the provincial/municipal People's Committees for approval. The principles governing such support are as follows:

- Funding for the implementation of key trade promotion programs shall be contributed by participating enterprises and partly supported by the State via the program-managing agencies.
- The agencies assigned to manage the programs shall ensure that funding is used economically and efficiently, and take responsibility for the spending contents strictly according to current regimes.

**Box 3: Contents of key trade promotion activities eligible for support cover**

- 1.1. Gathering trade information, conducting export promotion and setting up data centers in support of enterprises;
  - 1.2. Providing export advisory services;
  - 1.3. Organizing training courses in order to raise export capacity and skills of enterprises;
  - 1.4. Organizing export fairs and exhibitions;
  - 1.5. Surveying and seeking export markets;
  - 1.6. Promoting for national trademarks and typical export products;
  - 1.7. Providing initial expenses for building infrastructure for trade promotion: building bonded warehouses, trade promotion centers and exhibiting export products at home and abroad;
  - 1.8. Conducting research on the application and development of e-commerce related to exports;
  - 1.9. Other trade promotion activities identified by the Prime Minister.
- 2.0 Entities qualified for support are enterprises from all economic sectors covered by key trade promotion programs.

**Support levels**

- To support 50% of expenses for activities stated at points 1.1 to 1.5
- To support 70% of expenses for the remaining activities. Special cases shall be decided by the Prime Minister or the presidents of the provincial/municipal People's Committees (for local Unit).

Entities receiving support include trade associations, trade promotion agencies under various ministries and agencies, and eligible enterprises designated to act as agencies managing national key trade promotion programs approved by the Prime Minister (for programs supported by the central budget) or the presidents of the provincial/municipal People's Committees (for programs supported by local units' budgets). Enterprises providing trade promotion services shall not be entitled to support.

Capital used for support is provided by the State. Annually, the State puts aside a budgetary amount equal to 0.25% of the total national export turnover

of the previous year (excluding crude oil turnover) and transfers such amount into the Export Support Fund to form the support source for national key trade promotion programs. In cases where such amounts are not paid out, the remainder is deducted into from amount to be spent in the subsequent year. The provincial/municipal People's Committees shall use the capacity of their local units and the demand for export promotion spending as a basis for deciding the appropriate levels of deduction for the local trade promotion funds or export support funds.

In January 2003 Ministry of Trade Decision No. 104/2003/QĐ-BTM on the Regulation on Formulation and Management of National Key Trade Promotion Programs was promulgated. Key national trade-promotion programs are trade-promotion programs which are approved by the Prime Minister as proposed by the Ministry of Trade's proposal, aiming to develop exports and raise the competitiveness of Vietnamese commodities, focusing on key commodities and key markets. Annually, the Ministry of Trade shall announce the list of key commodities and key markets. (Article 1)

The programs' requirements are as follows: (1) The program should to boost export growth and raise the competitiveness of Vietnamese commodities; in line with the national export development goals for each period, and prioritizing key commodities and key markets as announced annually, (2) It should be compatible with the contents of key trade-promotion activities under the guideline of Section 1, Part II of the Ministry of Finance's Circular No. 86/2002/TT-BTC dated September 27, 2002. (3) It should be feasible and rational in terms of implementation mode; pace and timelines; human resource, financial and material requirements as well as technical foundations. (4) For some activities as mentioned below, apart from these requirements, the program must also satisfy the following:

a) Organizing or participating in overseas trade fairs and/or exhibitions:

- Multi-branch fairs and exhibitions must have 20 standard pavilions (3mx3m) or include the participation of at least 18 enterprises.
- Specialized fairs and exhibitions must have 10 standard pavilions or involve the participation of at least 8 enterprises.

- b) Organizing or participating in domestic fairs and/or exhibitions:
- Fairs and exhibitions in Hanoi and Ho Chi Minh City must have 350 standard pavilions or involve the participation of at least 300 enterprises.
  - Fairs and exhibitions in other localities must have 250 standard pavilions or involve the participation of at least 200 enterprises; particularly, fairs and exhibitions in localities bordering on neighboring countries must have 120 standard pavilions or involve the participation of at least 90 enterprises.
- c) Organizing or participating in delegations for market surveys or commercial transactions in foreign countries:
- Multi-branch delegations must be composed of at least 18 enterprises.
  - Specialized delegations must be composed of at least 8 enterprises.
- d) Training and/or fostering courses for strengthening export capacity and enterprise skills must be attended by at least 50 trainees (Article 4).

On November 3, 2005, the Prime Minister promulgated Decision No.279/2005/QĐ-TTg on the Regulation on the Elaboration and Implementation of the 2006-2010 National Trade Promotion Program. It aims to enhance trade promotion activities, develop export markets; create initial conditions for building material foundations in service of trade promotion activities; contribute to capacity-building for business community; link trade promotion activities with investment and tourism promotion for the period 2006-2010.

**Box 4: The Program's contents (trade promotion schemes) eligible for supports**

1. Trade information and export promotion, including the organization of visits to Vietnam by representatives of foreign mass media agencies to write about Vietnam's exports.
2. Hiring domestic and foreign experts to advise on the development of export and the design of models and products to raise the quality of goods and services.
3. Organizing domestic and overseas training to improve export capacity and business skills. For overseas training courses, government support shall be concentrated on specialized training courses to develop new products lasting no more than 3 months.
4. Organizing, participating in trade fairs and/or exhibitions
  - a) Organizing or participating in overseas trade fairs and/or exhibitions
    - For multi-branch fairs and/or exhibitions, each must have at least 15 standard commodity pavillions (3m x 3m) or involve at least 12 enterprises;
    - For specialized fairs and/or exhibitions, each must have at least 7 standard commodity pavilions or involve at least 5 enterprises;
  - b) Organizing domestic fairs and/or exhibitions of export goods
    - For fairs and/or exhibitions in centrally-run cities, each must have at least 200 standard commodity pavilions or involve at least 150 enterprises;
    - For fairs and/or exhibitions in other localities, each must have at least 150 standard commodity pavilions or involve at least 120 enterprises. Particularly for fairs and/or exhibitions in localities bordering on neighboring countries, each must have at least 100 standard commodity pavilions or involve at least 80 enterprises.
5. Organizing delegations for market survey or commercial transactions in foreign countries
  - a) For multi-branch delegations, each must involve at least 15 enterprises;
  - b) For specialized delegations, each must involve at least 7 enterprises.
6. Organizing general promotion activities (combining trade with investment and tourism) to boost Vietnamese exports of goods and services and to attract foreign investment and tourists to Vietnam.

7. Introducing into overseas markets specific brands of goods or services that have been awarded export prizes by the Prime Minister under annual national branding programs and promoting their penetration of such markets.
8. Building trade promotion infrastructure at home and abroad: a) To set up overseas trade promotion centers; b) To set up domestic trade promotion centers;
9. Formulating and applying an electronic business process; applying branch standards on electronic data exchange.
10. Other trade promotion activities as decided by the Prime Minister.

## **Human Resource Development Programs**

Along with establishing Credit Guarantee Funds and implementing Trade Promotion Programs, the Vietnamese Government also carries out human resource development programs to improve the quality of SMEs' human resources. On August 10, 2004, The Prime Minister issued Decision No 143/2004/QĐ-TTg on the Human Resource Development Program to assist SMEs. It is part of the overall policies and assistance programmes undertaken by the State for the benefit of SMEs as specified by Decree No. 90/2001/ND-CP dated November 23<sup>rd</sup>, 2001 by the Government in support of SME development. The Vietnamese Government realizes that at present SMEs' capacities are limited, and that training for SMEs' management personnel is still inadequate. Meanwhile, the demand of businessmen and SMEs for training managers has increased continuously, so that the state's assistance in training management human resources for SMEs has become very necessary.

The programs objective combines both overall and specific objectives. The overall objectives of this program include promoting and facilitating SMEs' competitiveness, contributing more and more to national socio - economic development; developing in terms of quantity and quality the system for assistance and provision of business development services, especially consultancy and human resources training to assist the growth and sustained development of SMEs. Specific objectives consist of providing the necessary knowledge to businessmen, SME managers, and people intending to establish

enterprises; overcoming the inadequacy of knowledge, skill and information; the gradual enhancement of management capacity, and the development of techniques, technology and human resources to meet the growing demand of SMEs; and assisting SME managers with the knowledge and skills to formulate their business and production strategies, expand the domestic and overseas markets and to integrate themselves into the global economy.

The scope of this programme covers: a) SMEs and businessmen: Training on enterprise administration for owners and managers, including training on business management, business planning, marketing administration, accounting and financial administration, human resource management, technical-technological management; marketing consultancy; training on business start-ups. b) Business assistance service providers: Training and enhancing the quality of assistance service providers for SMEs in special area to ensure quantity, quality of lecturers to implement the Programme. This Programme lasts 5 years from 2004 to 2008.

#### **Box 5: Training human resource programme content**

1. Training human resource for SMEs:
  - a) Training on business start up provides necessary information on the law and policies of the Party and the State, regulations on the establishment and operation of enterprises; knowledge and skills to formulate business and production plans and strategies. This part includes short courses lasting 5 days.
  - b) Training in business administration includes short courses lasting 7 days with the following content:
    - Increasing the capacity of SMEs to formulate plans and manage business and production activities through courses on general business management.
    - Strengthening the personnel management capacity of SMEs through courses on human resources management.
    - Strengthening the marketing capacity of SMEs through courses on marketing administration.
    - Assisting SMEs in formulating marketing plans and developing their



marketing skills, and ability to effectively participate in fairs and exhibits through courses on planning and marketing.

- Strengthening accounting and financial management skills of SMEs through courses on accounting and financial administration.
- Strengthening the SMEs' management capacity related to techniques, technology, intellectual property and quality standards through courses on technique and technology management.

2. Enhancing the quality of business services providers:

In order to intensify skills of general business services providers, various training activities are offered under the Programme, which contains as following:

- Training in general consultancy and marketing skills for consultants and lecturers and encouraging them to upgrade their professional standards.
- After participating in general consultancy training courses, business services providers are trained intensively in business start-ups, general business administration, marketing administration, accounting and financial administration, business planning, technique and technology administration, and human resources administration.

This part of the training includes short courses lasting about 14 days.

3. Programme implementation plan:

It is anticipated that in 5 years, the Programme shall be implemented as follows:

- Developing basic training materials.
- Carrying out 18 training courses for 540 lecturers.
- Carrying out 3,589 various training courses for SMEs and individuals as well as, organizations intending to establish business for about 107,670 people.

Decision No 143 specifies in detail the rate of progress of programme implementation. The Programme will be implemented in two periods. The first period is from 2004 to 2005, which focuses on building the foundations of the programme, such as through research, surveys of specific demand for training by SMEs, and planning the implementation of the programme; selecting and cooperating with organizations currently conducting human resources training, regardless of economic sector, organizational model and

location to effectively implement the programme, meeting the demand from SMEs in industrial sector; organizing seminars to discuss with domestic and overseas organizations that have experience in training and capacity-building for SME owners and managers in order to draw lessons in implementing the programme; preparing textbooks and necessary documents to improve the management mechanism for implementing the programme through pilot training courses. The second period is from 2006 to 2008, during which training courses are offered. Programme expenditure amounts to VND 119.4 billion (USD 75 million).

On November 24, 2004, the Minister of MPI issued Decision No. 1347/2004/QĐ-BKH on Guidelines for the Implementation of the SME Human Resource Development Program. The Human Resource Training Support Program for SMEs for the period 2004-2008 is a state target program specifically for SMEs, which is organized, implemented and managed under current regulations (Article 1). The purpose of the program is to provide essential knowledge for businesspersons, managers of SMEs and those who intend to set up their own enterprises; to overcome shortcomings in terms of knowledge, skills and information; to create favorable conditions for enterprises to progressively enhance their managerial capability and technological and human resource development for faster growth; and to help equip SME managers with knowledge and skills in formulating business strategy and undertaking internal and external market expansion in response to international economic integration (Article 2). The beneficiaries of the training are businesspersons, SME owners and managers and trainers (Article 3). The topics of training cover : (1) business start-up; (2) business management for SME managers, including general business management, human resource management, marketing management, market expansion, marketing planning and skills, financial and accounting management and technological management; (3) improving service quality for providers of training services, such as general consultancy, training skill and service marketing, and specialized training for different components of the program.

The program gives priority to trainees who are businesspersons, and SME owners and managers in the following sectors: labor-intensive and potential labor-intensive SMEs; SMEs undertaking business and production in government-encouraged sectors; SMEs with great export potential for

products and services; SMEs that are able to absorb laborers and disabled workers; SMEs that have not yet participated in the program; and are female entrepreneurs.

Trainers from service providers who need capacity building and training fulfill the following requirements: possess a bachelor's degree or a professional certificate for training consultancy or business consultancy if legally required; having lectured on or possess qualifications in a specific area and needing to acquire higher skills and competence to be able to participate in the program; committed to implement at least 3 training courses for the program after undergoing training; and not having been the subject of the legal action or meted administrative punishment in the area of consultancy and/or training that he/she is providing.

Priorities will be given to trainers who belong to training service providers, business associations, sectoral associations especially for sectors and areas that the government is encouraging; and those who have already attended a training [-for-trainer] course in the program but have been identified as needing be retrained.

After 4 years of implementing the Enterprise Law, Encouraging SME Development Law and other relevant laws and regulations, the development of SMEs has achieved considerable progress. These policies have facilitated the growth of SMEs nationwide, promoted innovation and entrepreneurship, contributed to growth and economic restructuring and helped address social issues.

However, serious obstacles for the development of SMEs remain. The Vietnamese Prime Minister, in his Directive No 27/2003/CT-TTg on Continuing to Step up Implementing Enterprise Law, Encouraging SME Development dated December 11, 2003, admits that "the right to freely engage in business under State regulations has not been fully ensured; policies on assisting SMEs have been implemented slowly; management of state-owned enterprises is still inadequate; there are still cases where legal document issuance doesn't correspond to business and production requirements; procedures to access markets are still irrational and involve high costs and delays prolonged time, especially in branches with conditional

businesses; plans for branch development still require repeated amendments, which poses obstacles to new business and investment expansion; occasional resort of some enterprises to illegal activities in order to circumvent extraordinarily strict and complicated regulations; agencies, officials and civil servants, and arbitrary imposition of inconvenient administrative procedures by particular, which have caused enterprises to miss opportunities and suffer costs. On the part of enterprises, knowledge of the law attitudes of a number of owners and managers leave much to be desired; some enterprises do business dishonestly, and violate legal regulations deliberately; internal management is weak and not transparent; SMEs have no linkages, cooperation efficiency and competitiveness are low; business associations are not clear about their proper roles, and are not sufficiently supportive of their members development."

To continue to strengthen and support the development of SMEs, on October 7, 2005, the Prime Minister issued Directive No. 40/2005/CT-TTg regarding the Resolution of the SME Council on the SME Development Plan for 2006-2010. The Prime Minister directed ministers, heads of ministerial level agencies, heads of government agencies, chairmen of People's Committees of provinces and centrally governed cities to ensure the effective implementation of measures and tasks with the goal of creating a favorable business environment and support for enterprises. Ministries, agencies, and provincial governments are expected to act on their own initiatives and submit proposals to the government, and the Prime Minister for the promulgation of guiding legal documents within their competence, and in the meantime, provide the necessary conditions for the implementation of Enterprise Law and Investment Law after they have been approved by the National Assembly.

Recently, on October 23, 2006, the Prime Minister issued Decision No. 236/2006/QĐ-TTg on the Approval of the SME Development Plan for 2006-2010. This Decision confirms the commitment views of the Vietnamese Government to SME Development. Under this Decision, the guiding principles for SME development are set out, as follows: (1) implement consistently the policy of building a multi-sectoral economy. Economic sectors that do business in compliance with legal regulations are all important constituent parts of a socialist oriented market economy with a vision of long term development, cooperation and healthy competition; (2) Create a sound

policy, legal and institutional environment that ensures fair and healthy competition for SMEs and service providers from all economic sectors so as to mobilize all internal and external resources for development investment; (3) Develop SMEs in an active but sustainable way, enhancing quality and quantity to achieve economic efficiency and the goal of contributing to employment generation, poverty reduction, ensuring social safety and security. SME development objectives are also to be integrated into national goals and to specific socio-economic goals of every region and locality, encouraging agricultural industries and traditional sectors with a focus on SME development in mountainous areas and regions confronted with socio-economic difficulties. SMEs owned by ethnic minorities, women and the disabled...should be prioritized and supported with priority given to SMEs (4) Gradually shift from direct support to indirect support in enhancing the capacity of SMEs; (5) Link business activities with environmental protection and ensuring social security and safety (6) Raise awareness of governments at all levels about the role played by SMEs in socio-economic development<sup>2</sup>.

## **II. Challenges for the development of SMEs in Vietnam**

The results of surveys conducted by the General Statistics Office of Vietnam in 2004, 2005 and 2006 revealed that 96.81 percent of total enterprises were SMEs in 2005. Enterprises with less than 10 employees accounted for 51.30 percent. Enterprises having between 10 and 200 employees made up 44.07 percent. Enterprises with 200 to 300 employees accounted for 1.43 percent. By size of capital, enterprises with less than 1 billion VND accounted for 41.80 percent. Enterprises with 1 and 5 billion VND composed 37.03 percent. Enterprises with 5 to 10 billion VND account for 8.18 percent.<sup>3</sup>

In process of development SMEs, in Vietnam face many challenges as shown in a survey conducted by the Agency of SME Development, MPI in 2005. The sample of the survey was 63,000 enterprises in 30 provinces and cities in the North of Vietnam, in various industries.

## High need on capital, market and training

The results of the survey show that the enterprises' capital size is relatively small. Nearly 50 percent of enterprises have capital amounting to less than 1 billion VND (62,000 USD). Nearly 75 percent of enterprises have less than 2 billion VND (124,000 USD). 90 percent of enterprises have less than 5 billion VND (310,000 USD). Due to their small scale of production, their competitiveness is low. Technological innovation is urgently needed, but is really difficult to carry out due to SME's budget constrains.<sup>4</sup>

Access to capital is the most important challenge facing the development of SMEs. 66.95 percent of enterprises always face difficulties in finding the needed capital. In terms of accessing government funds, only 32.38 percent of enterprises have been able to access these; most of them are SOEs and equitized enterprises. 35.24 percent of enterprises are able to access these funds with difficulty, and 32.38 percent of enterprise are completed unable to access these funds. Meanwhile, accessing other funds is also difficult. Only 48.65 percent of enterprises are able to access these other funds, and 20.9 percent of enterprises are unable.<sup>5</sup>

SMEs also face other challenges. 50.62 percent of enterprises cope with obstacles to market expansion, 41.7 percent of enterprises face hindrances with respect to land, and production sites, 25.22 percent face difficulties with the high cost of production, 24.23 percent lack support through preferential tax. 19.4 percent face difficulties due to lack of information, and 17.56 percent have difficulties with human resources training.<sup>6</sup>

Moreover, participating in Trade Promotion Programs of the government is also difficult. Only 5.2 percent of enterprises have participated in such programs. 23.12 percent find it difficult to participate, and 71.67 percent have never participated.

Training needs in various fields are acute. 33.64 percent of enterprises need training in finance, and accounting, 31.62 percent in corporate governance, 24.14 percent in marketing, 20.17 percent in formulating business plans, and business strategy, 12.89 percent in developing new products, 12.89 percent in negotiating skills and contracts, 11.62 percent in human resources

management, and 10.85 percent in the application of IT.<sup>7</sup>

## **Inadequate management and technology**

According to the survey, 55.63 percent of entrepreneurs have middle-level education, while 43.3 have junior-level and high-school education or below. The entrepreneurs who hold PhD account for only 0.66 percent; those who hold Master's degrees 2.33 percent, and those with university education 37.82%. One interesting characteristic is that most entrepreneurs, including those who hold university and advanced degrees often are not trained in economics and corporate governance. It does impact on the effectiveness of business plans, business strategy and the management of Vietnamese enterprises.

In terms of technology, only 8 percent of enterprises have advanced technology, most of whom are Foreign Direct Investment Enterprises. Although 60 percent of enterprises use computers, only 11.55 percent of enterprises use LAN networks, and only 2.16 percent of enterprises have their own websites.<sup>8</sup>

These results show dire situation with regard to the potential of enterprises in North Vietnam to participate in E-commerce and exploit business information which; does not meet the expectations of the Government with respect to the development of e-commerce.

This survey also shows a paradox: while the level of technology is low, the need of enterprises for training in technology is also very low, and only 5.65 percent of enterprises surveyed expressed a need to be trained in technology. It means that Vietnamese enterprises in general and enterprises in the North in particular do not appreciate technology, regardless of it being the decisive factor for the success of enterprises in the market.

The survey shows one difference between Vietnamese enterprises and foreign enterprises. While foreign enterprises care much about technology and technical progress, and market supply and demand, Vietnamese enterprises

only care about information on business mechanism and policies on enterprises.<sup>9</sup>

### **III. Solutions for the Development of SMEs in Vietnam**

After Vietnam's accession to the World Trade Organization at the end of 2006, the pressure on SMEs has increased. They have to struggle to enhance their competitiveness as soon as possible with the highest effectiveness in order to deal with international competition. Strengthening CGFs, and technological innovation are essential for SMEs. However, in the short-term, SMEs need more support with information on markets, marketing their products and intellectual property rights.

In recent years, government agencies and international organizations have undertaken great efforts to support SMEs. The Vietnamese Government has implemented several policies to encourage the development of SMEs. Governments at the local level also actively facilitate the development of SMEs. For example, Ho Chi Minh City established an Investment and Trade Promotion Center to provide business information for SMEs, and to offer training courses for SMEs on corporate governance. Seniors officials of the Vietnamese Government also regularly meet with SMEs to explore the problems that SMEs face and how to solve them. The Norwegian Agency for Development Cooperation (NORAD) and the United Nations Industrial Development Organization (UNIDO) recently agreed to provide a technical aid, which cost 626,000 USD, to improve the business environment in Vietnam from July 2006 to March 2007.<sup>10</sup>

There are many policies issued to promote the development of SMEs, but SMEs still lack channels to obtain information about these policies. From this perspective, the role of business associations is very important.

Business associations can represent the interests of SMEs in many industries vis-à-vis the Government. They can also provide essential information for SMEs. After Vietnam joined the WTO, enterprises benefited from adoption of WTO requirements with respect to the transparency of the legal system,



providing an enabling business environment, tariff-reduction commitments, and market access both in Vietnam and in other WTO members. With SMEs lacking capabilities to obtain the needed information on the WTO, business associations can help them take advantage of opportunities in international trade.

Moreover, business associations can help SMEs to resolve international trade disputes. The role of business association has been very clearly demonstrated in recent trade disputes involving Vietnam enterprises during the past few years. Such as in anti-dumping cases related to cat-fish, gas-lighters, bicycles, and leather shoes.

However, there are few business associations today in Vietnam that are able to play well their roles efficiently. Many business associations have been established because it is fashionable to do so, but most of them have unclear roles.

In conclusion, since 2000 the Vietnamese Government has undertaken great efforts in formulating policies on SME development. These policies have encouraged the development of SMEs in Vietnam. However, SMEs in Vietnam still face many difficulties. Business associations can play an important role in promoting SMEs.

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