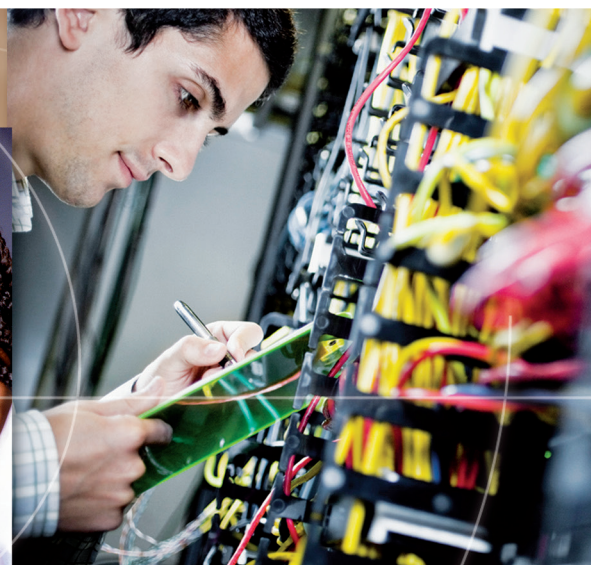




OECD Studies on SMEs and Entrepreneurship

SME and Entrepreneurship Policy in Viet Nam



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Policy Highlights



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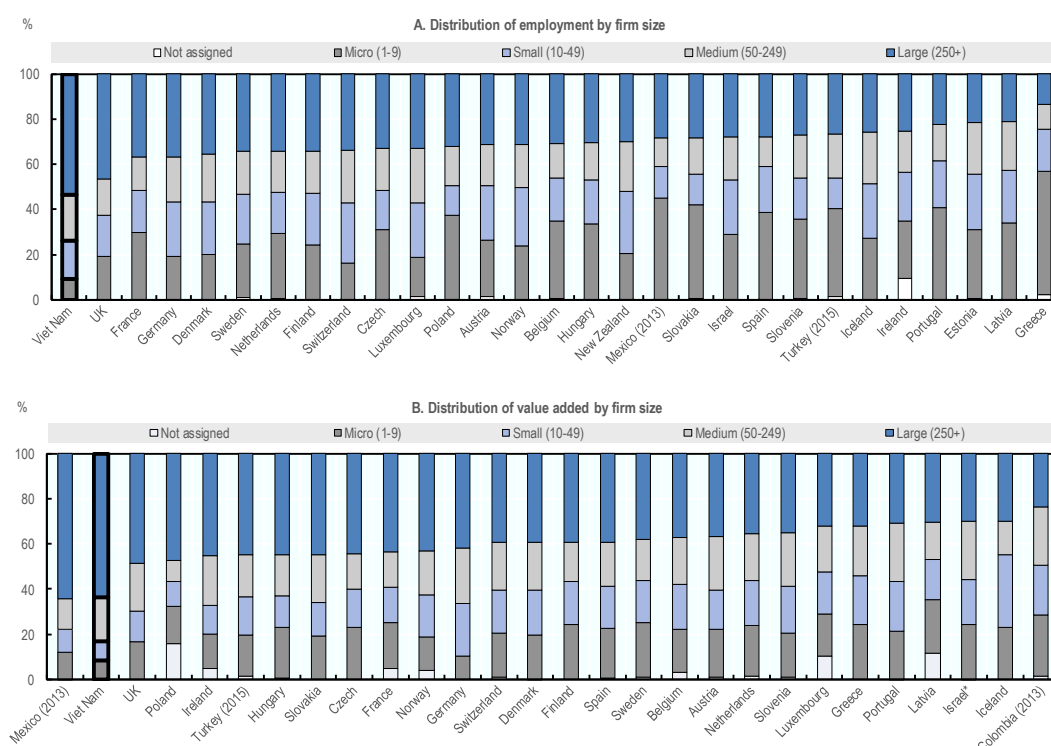
SME and entrepreneurship characteristics and performance in Viet Nam

Large industrial firms are the core of the Vietnamese economy

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

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

Figure 1. Distribution of employment and value-added by firm size in Viet Nam and across OECD countries, 2016



Note: Micro-enterprises: 1-9 people employed; small enterprises: 10-49 people employed; medium-sized enterprises: 50-249 people employed; large enterprises: 250+ people employed. Data for Viet Nam refer to employees.

Source: OECD calculations based on GSO Enterprise Census and OECD Structural and Demography Business Statistics (SDBS) database.

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

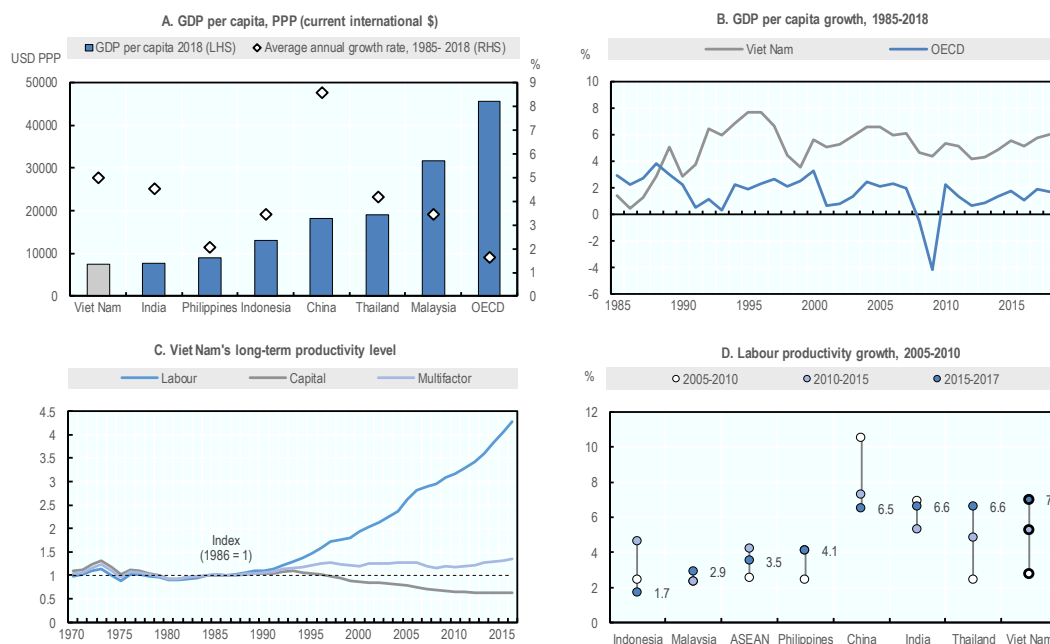
Data from Viet Nam's General Statistics Office (GSO) only cover the formal sector; however, the informal sector is large in Viet Nam and mostly consists of household businesses, own-account workers and micro-enterprises. Based on estimates by the national labour force survey, informal workers represent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



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

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

Figure 2. Labour productivity in Viet Nam: current levels and recent trends



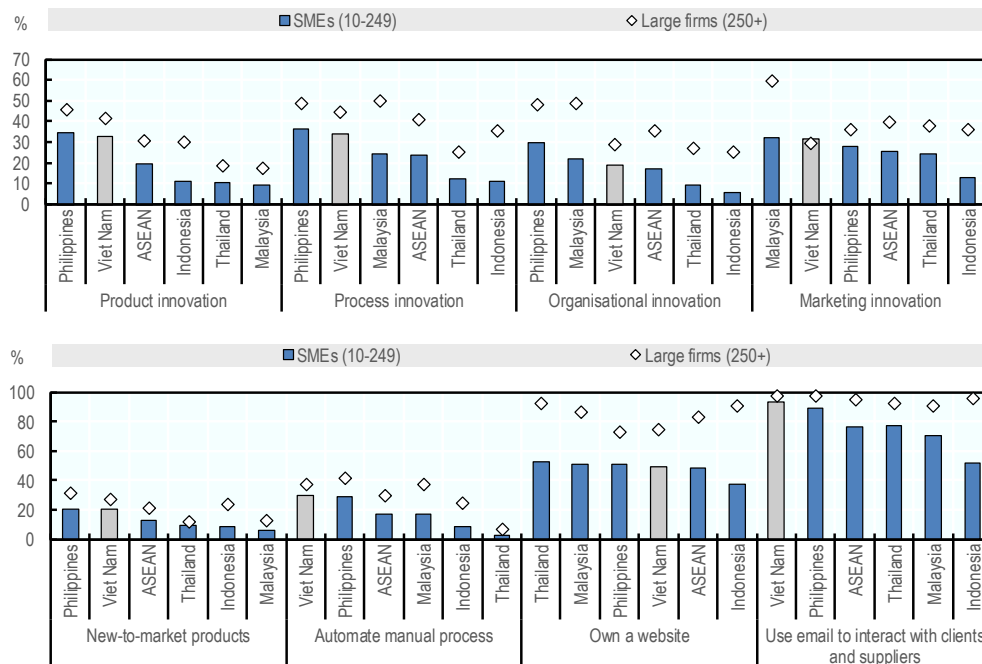
Note: Labour productivity is measured as output per person employed.

Sources: Panels A and B: World Bank's World Development Indicators. Panels C and D: Asian Productivity Organisation (APO) Database

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

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

Figure 3. Share of innovative firms, Viet Nam and other ASEAN countries, 2015



Source: OECD calculations based on World Bank Enterprise Surveys (data for Thailand is from 2016). Micro firms (1-9) are not sufficiently represented in the WBES, thus they are omitted from the graph (i.e. the WBES does not cover companies with less than 5 employees).

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

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

Mid-sized manufacturing firms show strong managerial skills

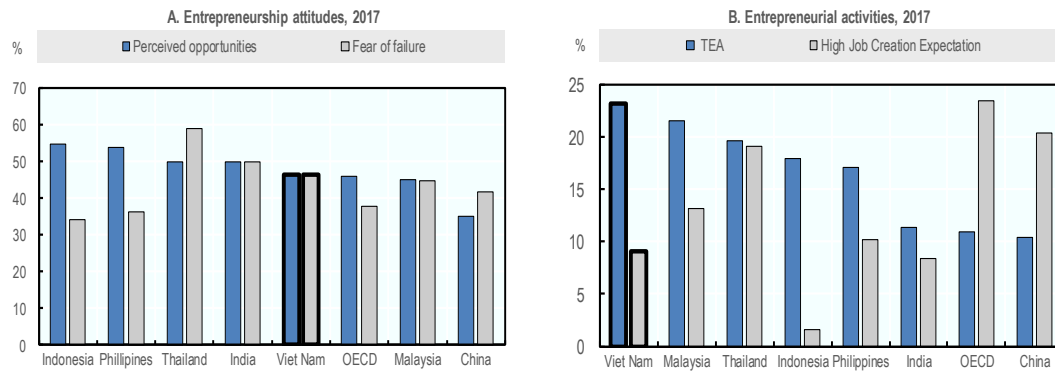
Data from the World Management Survey (which only covers mid-sized and large firms in manufacturing) show that Viet Nam's managers of manufacturing mid-sized companies do better than their peers from other large emerging economies (e.g. Brazil, China and India). The gap in managerial skills between mid-sized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

Entrepreneurial activity and business ownership are very common

Based on population survey data (Global Entrepreneurship Monitor, GEM) and national business statistics, Viet Nam emerges as a very entrepreneurial economy. This is the outcome of rapid growth that has generated business opportunities both for local entrepreneurs and foreign investors. Viet Nam has a high total entrepreneurial activity rate (population survey data), a high business churning rate (business entry and exit rates combined), and high rates

of high-growth firms and gazelles. In addition, the self-employment rate is exceptionally high by international standards (56% of total employment), although this figure also underlies a lack of other job opportunities and the limited scale-up of existing SMEs.

Figure 4. Entrepreneurial attitudes and activity in Viet Nam and selected countries, 2017



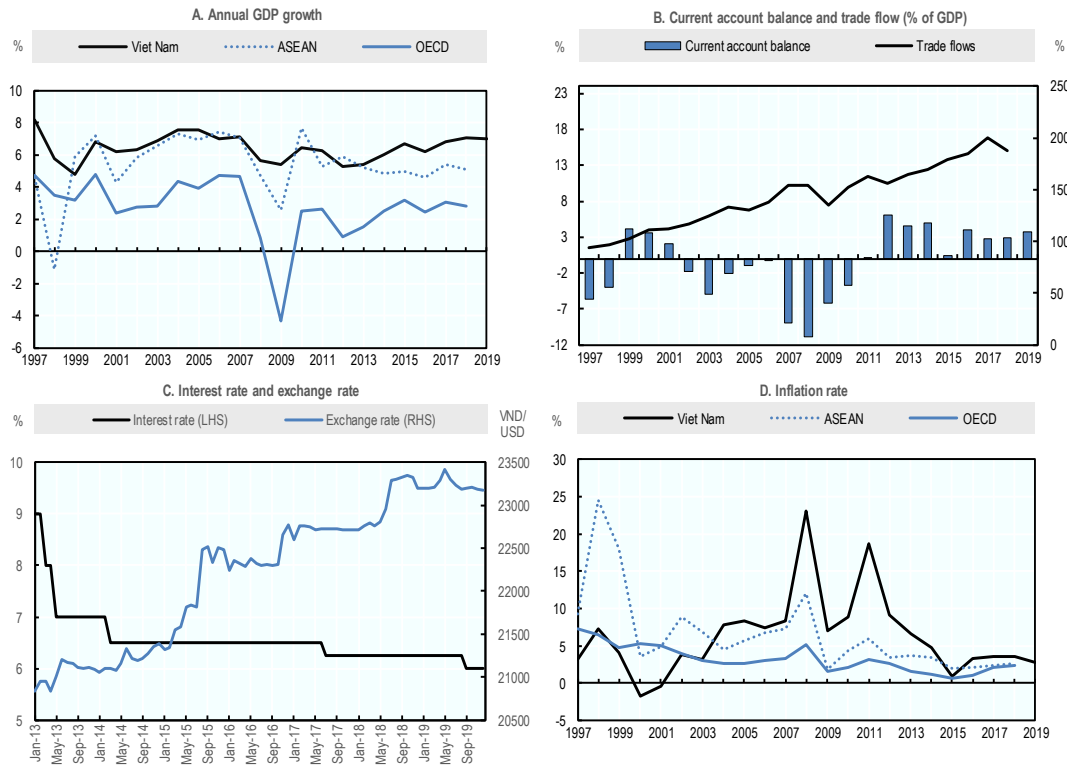
Source: OECD calculations based on Global Entrepreneurship Monitor (GEM) database.

The business environment for SMEs and entrepreneurship

Viet Nam has grown rapidly over the last 20 years

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

Figure 5. A macroeconomic overview of Viet Nam over the last 20 years



Note: Trade flows are the sum of imports and exports.

Sources: OECD calculations based on World Bank's World Development Indicators, International Finance Corporation, Viet Nam's General Statistics Office and State Bank of Viet Nam (SBV).

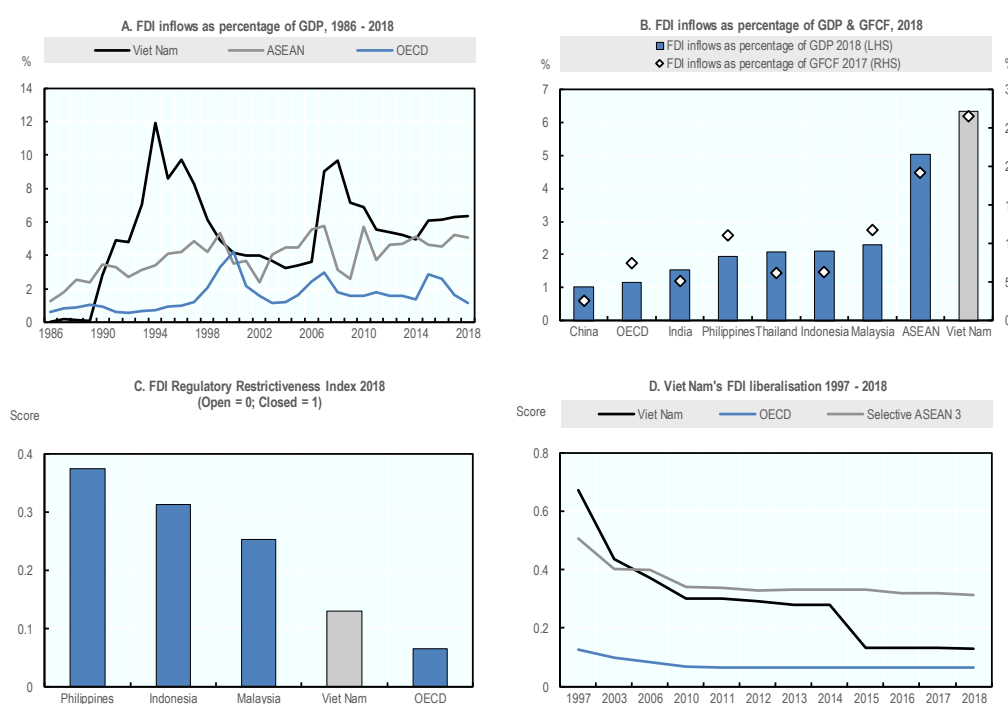
Export promotion and FDI attraction have been major drivers of Viet Nam's rapid economic growth

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

FDI attraction has been a key component of this export-led growth strategy: in 2018, foreign-owned companies accounted for 70% of Vietnamese exports. Based on information from the OECD FDI Regulatory Restrictiveness Index, Viet Nam is among the most open economies to FDI in the ASEAN region and is rapidly converging towards OECD standards. While Viet Nam has been successful at FDI attraction, linkages between multinational enterprises (MNEs) and SMEs need to be enhanced. By way of example, imports still account for about 80% of the total inputs into Viet Nam's final export goods.



Figure 6. FDI inflows and FDI regulatory restrictiveness in Viet Nam and selected countries



Note: Panel B: GFCF (Gross Fixed Capital Formation). Panels C & D: The analysis considers Malaysia, Indonesia, the Philippines, Viet Nam as the four ASEAN countries with complete data. The index for selected ASEAN 3 is the average of Malaysia, Indonesia and the Philippines.

Source: Panels A & B: OECD calculations based on UNCTADstat (<https://unctadstat.unctad.org/wds/TableView/tableView.aspx>); Panels C & D: OECD FDI Regulatory Restrictiveness Index 2018.

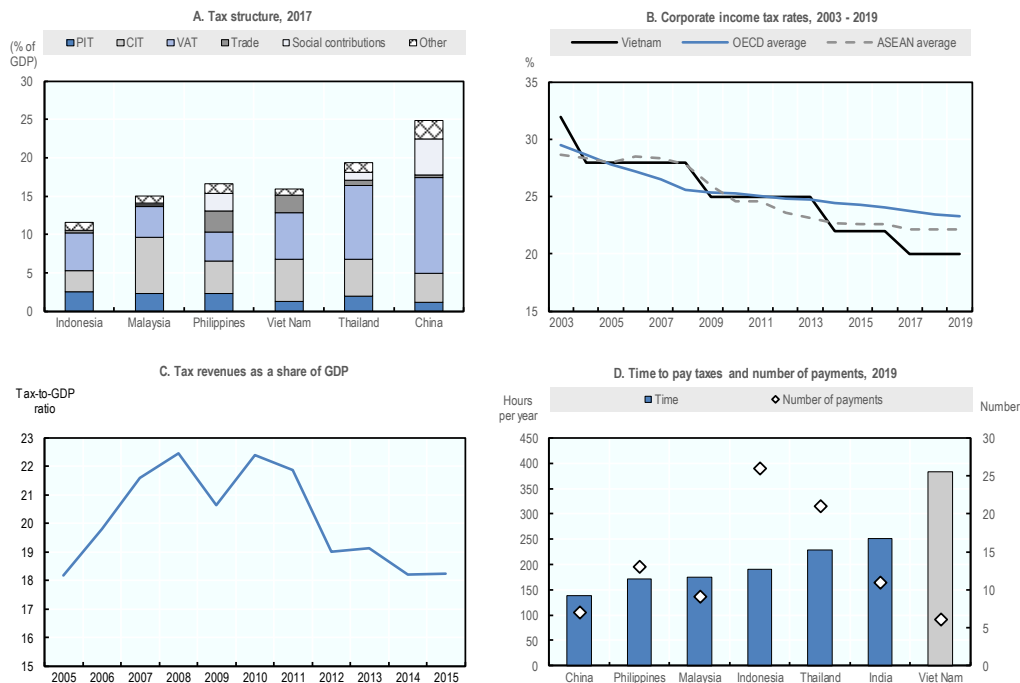
Business regulations have been simplified, but state-owned enterprises still play a large role in the economy

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

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

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

Figure 7. Viet Nam's tax structure and tax revenue



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

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

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

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

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

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

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

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

The governance of SME and entrepreneurship policy in Viet Nam

SMEs have received increasing attention in national legislation

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



Inter-ministerial co-ordination needs to be strengthened

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

There is adequate policy monitoring but little policy evaluation

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

SME and entrepreneurship support programmes in Viet Nam

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

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

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

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

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

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



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

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

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

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

programme for SMEs. Policy mechanisms for engaging SMEs in the use of e-commerce platforms should also be pursued more proactively.

The potential of public procurement for SME growth should be harnessed

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

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

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



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

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

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

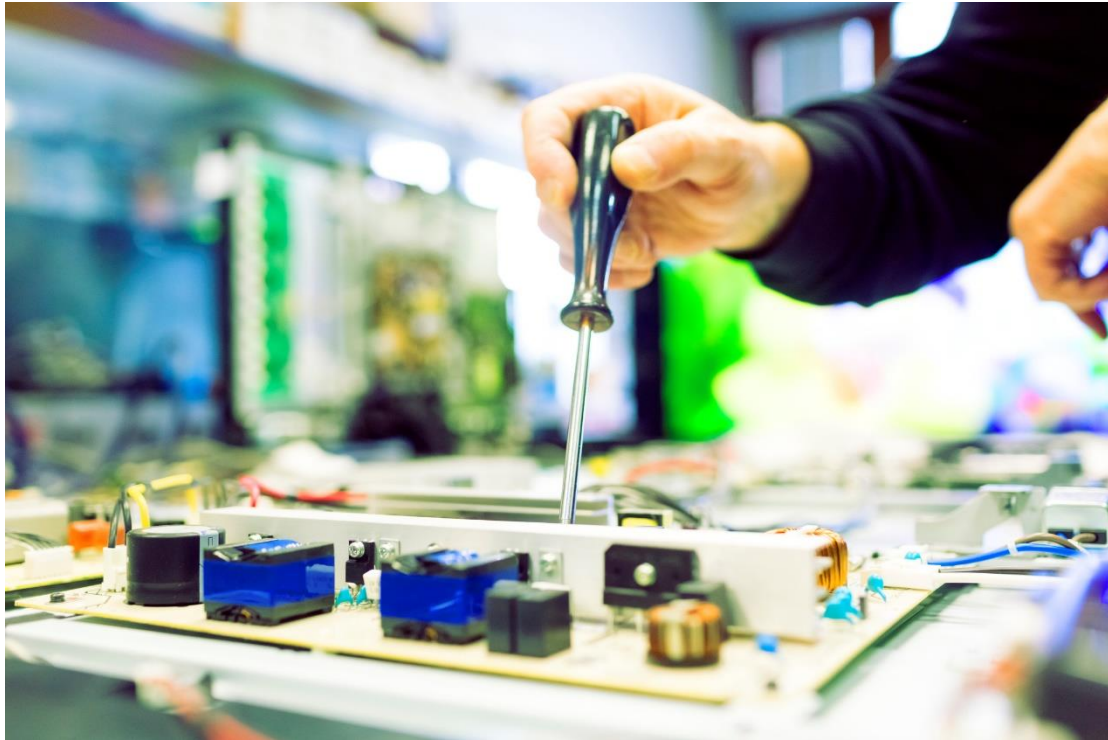
Programme support for women’s entrepreneurship has recently gained traction

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

Business linkages in Viet Nam

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

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

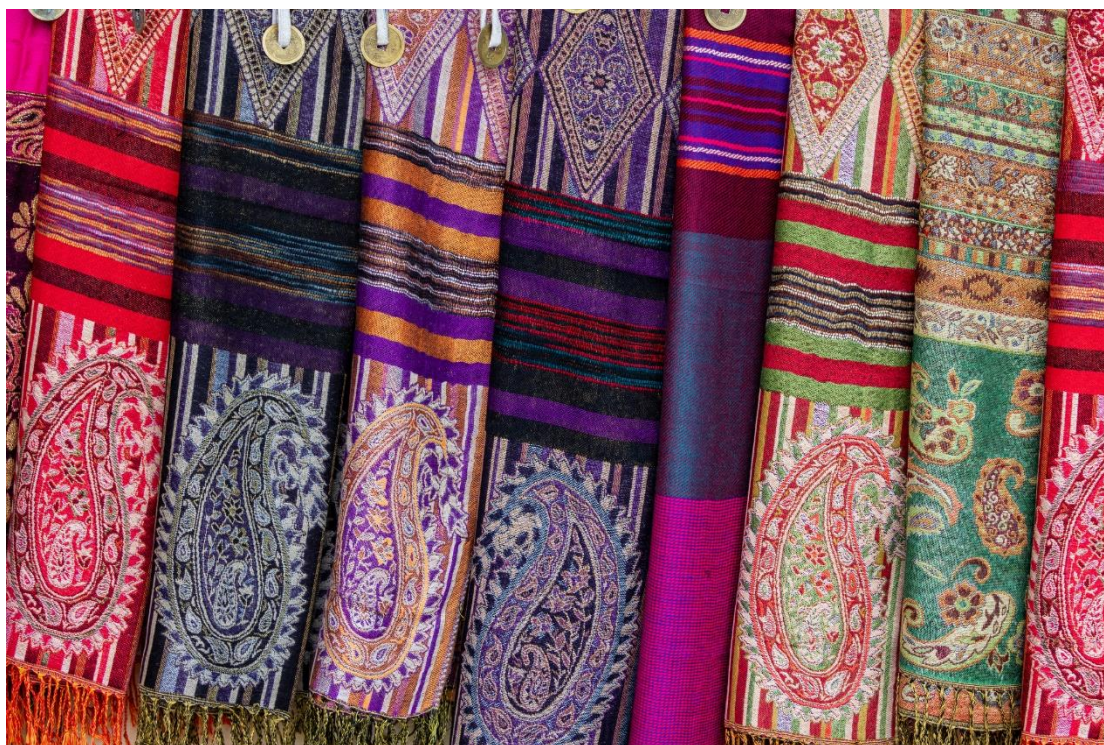


Different firm-level and contextual factors explain limited business linkages between MNEs and local SMEs

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

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

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



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

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

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

Business development services in Viet Nam

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

Business development services (BDS) are non-financial services (mostly, training, advice and mentoring) aiming to improve the performance of enterprises in terms of access to and ability to compete in domestic or international markets. As such, the main goal of BDS is to improve managerial skills and thereby enhance the productivity of SMEs. The Agency for Enterprise Development (AED) is the main entity responsible for BDS policies in Viet Nam, although some

provinces are also active in this area. In particular, the AED manages three Assistance Centres for SMEs that are commonly known as TAC (from the previous name of Technical Assistance Centres) and which are located in the three main cities of Ha Noi (North), Da Nang (Centre) and Ho Chi Minh City (South).

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

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

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

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

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

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

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



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

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

Main recommendations to strengthen SME and entrepreneurship policy in Viet Nam

Business environment for SMEs and entrepreneurship

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

Governance of SME and entrepreneurship policy

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

SME and entrepreneurship support programmes

- Undertake an in-depth assessment of the SME Development Fund (SMEDF) and the Credit Guarantee Fund (GCF), inclusive of questionnaires to SMEs and partnering banks, to single out the main causes behind their low use.
- Decrease the coverage rate of the CGF from 100% to about 80% to promote risk-sharing with partnering banks, and increase the annual premium fee for the credit guarantee from 0.5% to 1-2% (of the total guaranteed loan and interest) in order to promote sustainability of the Fund.
- Improve the working of the domestic junior equity market (UPCoM) by strengthening investor protection and increasing capital requirements for firms trading in this market.

- Complement supply-led programmes supporting R&D and technology-based enterprises with interventions, such as innovation vouchers, that aim to improve the innovation capacity of SMEs through skills upgrading and ICT adoption.
- Develop an export-readiness training programme targeting potential and novice SME exporters.
- Initiate a wide-scale intervention to orient SMEs in the use of e-commerce as an export trade channel.
- Develop a strategy to support SMEs through public procurement by setting targets for the share of public procurement contracts to be awarded to SMEs, establishing set-asides, encouraging state-owned enterprises to procure from SMEs, and developing a database to track the allocation of government contracts to SMEs.
- Support more generously within-company training with a view to enhancing the average labour productivity of SME workforces; for example, by implementing a demand-driven programme aimed at the upgrading of workforce skills in SMEs.
- Facilitate the involvement of multinational enterprises in SME workforce training programmes to enable the transfer of international standards, management practices and technology, and to align with the policy target of linking local SMEs to global value chains.
- Ensure that women-owned businesses are adequately represented in all government SME and entrepreneurship programmes, including those under the framework of the SME Support Law.

Business linkages

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

Business development services

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

More information:
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