



Viet Nam: Second SME Devt Program (SP2)

Project Name	Second SME Devt Program (SP2)	
Project Number	41360-014	
Country	Viet Nam	
Project Status	Closed	
Project Type / Modality of Assistance	Loan	
Source of Funding / Amount	Loan 3050-VIE: Second SME Devt Program (SP2)	
	concessional ordinary capital resources lending / Asian Development Fund	US\$ 50.00 million
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Governance and capacity development Private sector development	
Sector / Subsector	Finance - Small and medium enterprise finance and leasing	
Gender Equity and Mainstreaming	Effective gender mainstreaming	
Description	The Subprogram seeks to assist sustainable high economic growth in Viet Nam, by supporting the development and competitiveness of small and medium-sized enterprises (SMEs). The Subprogram will support the Government reforms efforts by: (i) enhancing the policy and planning framework for SME development; (ii) improving the efficiency of administrative systems in support of SME development and operations; (iii) strengthening the regulatory framework for competition policy; and (iv) enhancing SME access to finance.	

Project Rationale and Linkage to Country/Regional Strategy

Healthy levels of private investment will continue to be essential in order to achieve the 7% to 8% rate of annual economic growth and the 8 million new jobs targeted under Viet Nam's National Socio-Economic Development Strategy 2011-2020. Increasingly, such contribution is expected to come from the domestic private sector, largely composed of SMEs. The government has assisted the development of SMEs with a combination of landmark policy reforms since 2000. As a result, by the end of 2011, there were nearly 550,000 registered enterprises in Viet Nam, up from 14,500 in 2000. SMEs represented 97% of the country's total number of firms, and 46% of GDP. The domestic private sector accounted for 59% of total employment in 2011, up from 29% in 2000. By industry, the wholesale and retails, and vehicle repair sector account for nearly 40% of active enterprises, followed by manufacturing (18%) and construction (16%).

The large increase in the number of private sector companies since the approval of the Enterprise Law in 2000 has been followed by sustained increases in the average dimension and productivity of the firms. Between 2000 and 2010, the average capital per firm increased six-fold, and the average net revenue per employee has tripled. In addition, the contribution of SMEs to tax revenue has become increasingly important. By end of 2010, of the 336,000 enterprises paying taxes in Viet Nam of which 318,000 were private enterprises, 13,000 were foreign owned enterprises and around 5,000 were state-owned enterprises. While the Government's achievements are impressive, more needs to be done to foster a greater scale of SME development. For example, the size of an average SME remains quite small at 22 employees per enterprise, and an average capital base of VND 17.6 billion (approx. \$900,000). SMEs face challenges from a variety of sources including a complex bureaucracy, regulatory hurdles and a lack of financing.

Improving stakeholder dialogue and the statistical base for policy formulation. The involvement of the private sector and other relevant stakeholders in designing and executing SME policies has been inadequate as the existing consultative framework is limited and largely ad hoc. Stakeholder have previously not participated in the evaluation of past policies, the formulation of new strategic plans, and the improvement of the statistical base for policy formulation, especially with the incorporation of additional gender dimensions.

Large administrative burdens continue to pose a challenge. Although great progress has been achieved since 2000 in simplifying administrative procedures for the registration of enterprises, important administrative burdens remain. The total number of regulations in Viet Nam that affect businesses increased dramatically between 2005 and 2009. During this period, Viet Nam issued more legal normative documents that affected businesses (17,164) than the previous 18 years put together. As a result, the Government started implementation of Project 30, specifically aimed at the simplification of close to 5,000 administrative procedures at the national and local levels of business operations. Of particular importance, the simplification of customs procedures and tax payment processes has been identified as particularly important. For example, private businesses have been submitting monthly VAT declarations. Obtaining the release of their goods from customs could take close to a day as the declarations had to be handed in personally. In addition, inadequate communication between the Treasury and the commercial banks prevented the prompt release of goods from customs after the dues had been paid.

High tax and compliance costs. The administrative burden imposed on businesses translates into high tax compliance costs. On average, a company has to spend 941 hours in complying with tax payments (a total of 32 per year), which ranks Viet Nam 151 out of 183 countries in the Doing Business Report 2012. In addition, despite recent improvements, the number of documents required to support imports in Viet Nam is still above regional averages and the cost to import goods has steadily increased.

An inefficient regulatory framework. The Government faces the need to improve the quality of legal documents providing the regulatory framework for business development. The large number of regulatory documents currently being applied contains numerous inconsistencies which need to be addressed and administrative procedures need to be simplified. Further, new mechanisms are required to identify the benefits and costs associated with the enactment of proposed regulations to filter out inefficient or rent-seeking procedures.

Limited access to legal services. Increasingly, SMEs have been highlighting limited access to legal services as an important constraint to their development. The latter has been more prominently identified in the context of land disputes, but also in terms of access to laws and legal advice generally. The government has also identified the amendment of the Competition Law as a key legislative priority and has completed a 5-year enforcement review that will serve as the basis for the draft amendments.

Outdated laws. A thorough review of the 5 year old competition policy framework is required. The regulatory framework exhibits weaknesses in the indicators used to identify dominant market position and the system of penalties and enforcement measures does not appear strong enough to effectively stop violations. Viet Nam's experience with the full application of the Competition Law is limited, and thus outreach and education are key priorities.

Limited access to capital. The rapid growth of Viet Nam's financial sector has not benefited all segments of the economy equally. In fact, access to finance has been cited as a major constraint for 45% of small firms, a percentage significantly higher than for larger enterprises. A government survey reports that 65% of enterprises in the manufacturing sector depend on retained earnings to finance investment, with a very small group, estimated at 5-10% of SMEs, obtaining credit from banks. Overall, the SME sector accounts for approximately 28% of total credit as of end of 2012, which is relatively low compared to its GDP contribution of 46%.

Select regulations have fostered lending practices within the state-owned commercial banks (SOCBs) that continue to discriminate against private sector borrowers and in favor of SOEs. Compounding the traditional challenges in obtaining and using collateral, the current regulatory framework limits non-collateral forms of debt financing such as leasing. In addition, the commercial banking sector favors very conservative practices in collateral valuation and loan tenure, further limiting financing options.

The Government's reform agenda. Eliminating constraints for the further development of the SMEs sector remains a key pillar of the Government's new Socioeconomic Development Strategy 2011-2020, and the Socioeconomic Development Plan (SEDP) 2011-2015. SME growth continues to be critical to overcome the structural growth limitations created by the predominance of State-Owned Enterprises (SOEs) in Viet Nam's economy. The latter still capture a priority share of available financial resources for investment from public sources, despite evidence of low returns to capital and modest employment creation. SMEs can play a key role in improving economic efficiency and sustaining high productivity levels. The potential of the SME sector for employment creation suggests the need to assist improved access to finance and land, while continuously improving the regulatory framework for their operations. In addition, future productivity growth in Viet Nam will largely depend on the technological and skills upgrade of the domestic private sector.

Impact

Increased contribution of SMEs and the private sector to support sustainable high economic growth

Project Outcome

Description of Outcome	Improved business environment for more competitive SMEs and private sector operations
Progress Toward Outcome	
Implementation Progress	
Description of Project Outputs	Policy and institutional framework for SME development improved Improved efficiency of administrative systems for SME establishment and operations Strengthened framework for competition policy. SME access to finance enhanced
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	

Safeguard Categories

Environment	C
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects

Environmental Aspects	The first subprogram of this programmatic approach was categorized as C. The second subprogram does not include, in the policy matrix that anchors the loan, any policy reforms likely to have environmental impact.
Involuntary Resettlement	The policy matrix of the proposed policy-based loan does not include any policy actions that may lead to resettlement. The first subprogram of this programmatic approach was categorized as C.
Indigenous Peoples	The policy-based loan provides support to the development of SMEs in Viet Nam by enhancing the policy and regulatory framework, improving access to credit, strengthening the framework for competition policy and improving the administrative systems in support of SME operations. The policy matrix for the loan does not include policy measures that are likely to impact on indigenous peoples.

Stakeholder Communication, Participation, and Consultation

During Project Design
During Project Implementation

Responsible Staff

Responsible ADB Officer	Gomez Reino, Juan L.
Responsible ADB Department	Southeast Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, SERD
Executing Agencies	<i>Ministry of Planning and Investment 6 B Hoang Dieu street, Ba Dinh district, Hanoi, Viet Nam</i>

Timetable

Concept Clearance	30 Jul 2012
Fact Finding	08 Apr 2013 to 12 Apr 2013
MRM	28 May 2013
Approval	23 Oct 2013
Last Review Mission	-
Last PDS Update	18 Sep 2013

Loan 3050-VIE

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
23 Oct 2013	22 Nov 2013	10 Jun 2014	31 Mar 2014	31 Jul 2014	18 Aug 2014

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	50.00	Cumulative Contract Awards			
ADB	50.00	23 Oct 2013	50.99	0.00	100%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	23 Oct 2013	50.99	0.00	100%

Project Page	https://www.adb.org/projects/41360-014/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=41360-014
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