



# Report and Recommendation of the President to the Board of Directors

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Project Number: 41360  
September 2013

## Proposed Policy-Based Loan for Subprogram 2 Socialist Republic of Viet Nam: Second Small and Medium-Sized Enterprises Development Program

## **CURRENCY EQUIVALENTS**

(as of 28 August 2013)

Currency unit	–	dong (D)
D1.00	=	\$0.000047
\$1.00	=	D21,135.000

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
APCA	–	Administrative Procedures Control Agency
CIEM	–	Central Institute for Economic Management
EDA	–	Enterprise Development Agency
GDP	–	gross domestic product
HNX	–	Ha Noi Stock Exchange
MOF	–	Ministry of Finance
MOIT	–	Ministry of Industry and Trade
MOJ	–	Ministry of Justice
MOLISA	–	Ministry of Labor, Invalids and Social Affairs
MPI	–	Ministry of Planning and Investment
OOG	–	Office of the Government
RIA	–	regulatory impact assessment
SBV	–	State Bank of Vietnam
SDR	–	special drawing rights
SEDP	–	Socio-Economic Development Plan
SMEs	–	small and medium-sized enterprises
SOE	–	state-owned enterprise
UNIDO	–	United Nations Industrial Development Organization
UPCOM	–	unlisted public companies market
VAT	–	value-added tax
VCA	–	Viet Nam Competition Authority
VDB	–	Viet Nam Development Bank

## **NOTE**

In this report, “\$” refers to US dollars.

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## CONTENTS

	<b>Page</b>
PROGRAM AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROGRAM	1
A. Rationale	1
B. Impact and Outcome	4
C. Outputs	4
D. Development Financing Needs	7
E. Implementation Arrangements	7
III. DUE DILIGENCE	8
A. Economic and Financial	8
B. Governance	8
C. Poverty and Social	9
D. Safeguards	9
E. Risks and Mitigating Measures	9
IV. ASSURANCES	10
V. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	14
3. Development Policy Letter	15
4. Policy Matrix	19

## PROGRAM AT A GLANCE

<b>1. Project Name:</b> Second Small and Medium-Sized Enterprises Development Program (SP2)		<b>2. Project Number:</b> 41360-014									
<b>3. Country:</b> Socialist Republic of Viet Nam		<b>4. Department/Division:</b> Southeast Asia Department/ Public Management, Financial Sector, & Trade Division									
<b>5. Sector Classification:</b>											
	<b>Sectors</b>	<b>Primary</b>	<b>Subsectors</b>								
	Finance	√	Small and medium-sized enterprise finance and leasing								
<b>6. Thematic Classification:</b>											
	<b>Themes</b>	<b>Primary</b>	<b>Subthemes</b>								
	Economic growth		Promoting economic efficiency and enabling business environment								
	Private sector development	√	Policy reforms								
	Governance		Economic and financial governance								
<b>6a. Climate Change Impact</b>		<b>6b. Gender Mainstreaming</b>									
No Climate Change Indicator available.		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Gender equity theme (GEN)</td> <td style="width: 20%;"></td> </tr> <tr> <td>Effective gender mainstreaming (EGM)</td> <td style="text-align: center;">√</td> </tr> <tr> <td>Some gender elements (SGE)</td> <td></td> </tr> <tr> <td>No gender elements (NGE)</td> <td></td> </tr> </table>		Gender equity theme (GEN)		Effective gender mainstreaming (EGM)	√	Some gender elements (SGE)		No gender elements (NGE)	
Gender equity theme (GEN)											
Effective gender mainstreaming (EGM)	√										
Some gender elements (SGE)											
No gender elements (NGE)											
<b>7. Targeting Classification:</b>		<b>8. Location Impact:</b>									
	<b>Targeted Intervention</b>										
<b>General Intervention</b>	<b>Geographic dimensions of inclusive growth</b>	<b>Millennium development goals</b>	<b>Income poverty at household level</b>								
√											
		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;">National</td> <td style="width: 50%; text-align: center;">High</td> </tr> </table>		National	High						
National	High										
<b>9. Project Risk Categorization:</b> Low											
<b>10. Safeguards Categorization:</b>											
		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Environment</td> <td style="width: 30%; text-align: center;">C</td> </tr> <tr> <td>Involuntary resettlement</td> <td style="text-align: center;">C</td> </tr> <tr> <td>Indigenous peoples</td> <td style="text-align: center;">C</td> </tr> </table>		Environment	C	Involuntary resettlement	C	Indigenous peoples	C		
Environment	C										
Involuntary resettlement	C										
Indigenous peoples	C										
<b>11. ADB Financing:</b>											
	<b>Sovereign/Nonsovereign</b>	<b>Modality</b>	<b>Source</b>								
	Sovereign	Program loan	Asian Development Fund								
	Total		50.0								
<b>12. Cofinancing:</b>											
No Cofinancing available.											
<b>13. Counterpart Financing:</b>											
No Counterpart Financing available.											
<b>14. Aid Effectiveness:</b>											
		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Parallel project implementation unit</td> <td style="width: 30%; text-align: center;">No</td> </tr> <tr> <td>Program-based approach</td> <td style="text-align: center;">Yes</td> </tr> </table>		Parallel project implementation unit	No	Program-based approach	Yes				
Parallel project implementation unit	No										
Program-based approach	Yes										

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to the Socialist Republic of Viet Nam for subprogram 2 of the Second Small and Medium-Sized Enterprises Development Program.<sup>1</sup>

2. Subprogram 2 seeks to assist the government in achieving sustainable high economic growth in Viet Nam by supporting the development and competitiveness of small and medium-sized enterprises (SMEs). Subprogram 2 will support the government's reform 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.<sup>2</sup>

## II. THE PROGRAM

### A. Rationale

3. **Increasing contribution to economic growth.** Healthy levels of private investment will continue to be essential to achieve the 7%–8% rate of annual economic growth and the 8 million new jobs targeted under Viet Nam's Socio-Economic Development Strategy, 2011–2020. Increasingly, such contribution is expected to come from the domestic private sector, largely composed of SMEs.<sup>3</sup> 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, nearly 550,000 enterprises were registered in Viet Nam, up from 14,500 in 2000. SMEs represented 97% of the country's total number of firms, and 46% of gross domestic product (GDP). The domestic private sector accounted for 59% of total employment in 2011, up from 29% in 2000. By industry, the wholesale and retail, and vehicle repair subsectors account for nearly 40% of active enterprises, followed by manufacturing (18%) and construction (16%).

4. 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.<sup>4</sup> From 2000 to 2010, the average capital per firm increased sixfold, and the average net revenue per employee tripled. In addition, the contribution of SMEs to tax revenue has become increasingly important. By the 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 about 5,000 were state-owned enterprises (SOEs).<sup>5</sup> While the government's achievements are impressive, more needs to be done to foster greater SME development. SMEs face challenges from a variety of sources including a complex bureaucracy, regulatory hurdles, and lack of financing. ADB continued commitment to financial sector and SOE reforms address some of the key remaining challenges to private sector (see para. 28).

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<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> ADB. 2012. *Technical Assistance to Viet Nam for Supporting the Second Small and Medium-Sized Enterprises Development Program*. Manila (TA 8184-VIE). The technical assistance provides support to the implementation of the post-program partnership framework agreed with the government.

<sup>3</sup> According to Viet Nam's definition (Decree 56/2009), SMEs comprise all companies with less than D100 billion (\$5 million) chartered capital and 10–300 workers. For the trade and services sector, the thresholds are lower (10–100 employees, and less than D50 billion in capital).

<sup>4</sup> The government aims to increase the number of operating SMEs to 600,000 by 31 December 2015 and over the 5-year period, SMEs are expected to create 3.5–4.0 million jobs.

<sup>5</sup> Ministry of Planning and Investment. 2012. *White Paper on Small and Medium Sized Enterprises in Viet Nam 2011*. Ha Noi.

5. **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. Stakeholders' participation in the evaluation of past policies, the formulation of new strategic plans, and the improvement of the statistical base for policy formulation has been limited until the publication of the first SME White Paper in 2011.

6. **Simplifying administrative procedures.** 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 from 2005 to 2009. As a result, the government started implementation of Project 30, specifically aimed at the simplification of close to 4,800 administrative procedures at the national and local levels of business operations.<sup>6</sup> The simplification of administrative procedures has been shown to particularly benefit women entrepreneurs with lower average skills, representing a critical gender mainstreaming strategy.

7. **Reducing 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 per year complying with tax payments, which ranks Viet Nam 138 out of 183 countries in the *Doing Business Report 2013*.<sup>7</sup> In addition, despite recent improvements, the number of documents required to process imports in Viet Nam is still above regional averages and the cost to import goods has steadily increased. Until 2012, private businesses have been submitting monthly value-added tax (VAT) declarations. Filing customs declarations could take close to a day as the declarations have to be handed in personally. In addition, inadequate communication between the Treasury and commercial banks prevents the prompt release of goods from customs after dues have been paid.

8. **Improving the quality of legal texts and SME access to legal services.** A large number of regulations for business development currently being applied contain numerous inconsistencies. Further, clear guidance for the preparation of regulatory impact assessments (RIAs) is required to better identify the benefits and costs associated with the enactment of proposed regulations, and to filter out inefficient or rent-seeking practices. Increasingly, SMEs have been highlighting limited access to legal services as an important constraint to their development.

9. **Review of the 5-year-old competition policy framework required.** The framework exhibits weaknesses in the indicators used to identify dominant market position, and the system of penalties and enforcement measures are not strong enough to stop violations effectively. Viet Nam's experience with the full application of the Competition Law, 2005 is limited, thus outreach and education are key priorities. In addition, the Enterprise Law, 2005 requires the incorporation of critical underdeveloped provisions, such as corporate governance practices and elimination of limitations on registration of foreign businesses. Improvements to competition policy will assist in increasing the average size of SMEs, which has been shown to assist female employment growth.<sup>8</sup>

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<sup>6</sup> Master Plan to Simplify Administrative Procedures in the fields of State Governance for 2007–2010 (Project 30).

<sup>7</sup> World Bank. 2013. *Doing Business Report 2013: Smarter Regulations for Small and Medium-Size Enterprises*. Washington DC.

<sup>8</sup> Women represented 43% of the labor force in medium-sized enterprises, and 40% in small enterprises (Central Institute for Economic Management (CIEM). 2013. *Characteristics of the Vietnamese Business Environment*. Ha Noi).

10. **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 continues to be 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. Women entrepreneurs represented 34% of the loan applications in 2009, and continue to face greater limitations in access to credit in the absence of land use certificates. Overall, the SME sector accounts for about 30% of total credit as of the end of 2012, which is relatively low compared with its GDP contribution of 46%. Compounding the traditional challenges in obtaining and using collateral, the current regulatory framework limits noncollateral forms of debt financing such as leasing.

11. **The government's reform agenda.** Eliminating constraints for the further development of the SME sector remains a key pillar of the Socio-Economic Development Strategy, 2011–2020, and the Socio-Economic Development Plan (SEDP), 2011–2015. The government's strategic policy framework for SME development is contained in the Small and Medium-Sized Development Plan, 2011–2015. SME growth continues to be critical to overcome the structural growth limitations created by the predominance of SOEs in Viet Nam's economy. SOEs still capture a priority share of available financial resources for investment from public sources, despite evidence of low returns on capital and modest employment creation. 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.

12. **Reform sequence.** Subprogram 1 supported the implementation of numerous milestones in strategic policy reforms for SME development such as the publication of the *White Paper on Small and Medium Sized Enterprises in Viet Nam 2011*, which was the basis for formulation of the SME Development Plan, 2011–2015 in subprogram 2. Subprogram 1 provided support to the issuance of Decree 56/2009, which redefined the government's support for SME development and identified the roles of government agencies in implementing SME development policies. In subprogram 2, key provisions of the decree have been supported, such as initiatives for the provision of legal services for SMEs. Subprogram 1 also supported the establishment of a national web-based system for business registration, while subprogram 2 assisted its implementation at the provincial level and its integration with tax information systems. With a view toward improving access to finance, subprogram 1 supported the establishment of the credit guarantee scheme within Viet Nam Development Bank (VDB), and the issuance of initial regulations governing leasing and equity finance options through the market for unlisted companies in Ha Noi Stock Exchange (HNX). Under subprogram 2, the government improved the credit guarantee scheme to ensure a more efficient distribution of credit risk, and integrated leasing practices into the Law on Credit Institutions, 2010 lending it consistency. Since the start of Asian Development Bank (ADB) support to SME development in Viet Nam, over 300,000 new enterprises have been registered, contributing some 60% of total private sector employment in 2012 (from 53% in 2007). Partly as a result of the new national web-based business registration system, the cost of starting a business has been reduced by almost 10% since 2007, and the days required to process a business application have been reduced by 30%. The share of SMEs in outstanding loans from commercial banks has almost doubled from 15% to nearly 30% in 2012, and their contribution to investment is now close to 65% of the total.

13. **Lessons.** ADB has provided direct assistance to the government to support SME



development through a combination of policy-based cluster loan and technical assistance.<sup>9</sup> An important lesson learned is that SME development will largely depend on a series of parallel reforms in the country's financial and economic structure. In recognition of this fact, ADB's country partnership strategy, 2012–2015 and the country operations business plan, 2012–2014 identify private sector development as a key priority for sustainable and inclusive economic growth.<sup>10</sup> Within this framework, ADB has been supporting economic reforms and private sector development through a number of programs focused on SOE restructuring, development of microfinance, and financial sector reforms. Continued support and engagement in these sectors will be essential to continuing progress in the SME sector. ADB loans have been processed as clusters to ensure a medium-term focus, while reforms have been consistently assisted through regular technical assistance.

## **B. Impact and Outcome**

14. The impact of subprogram 2 will be to increase the contribution of SMEs and the private sector in achieving sustainable high economic growth. The outcome will be an improved business environment to support more competitive SMEs and the private sector. Subprogram 2 includes 32 reform actions (11 policy triggers and 21 milestones) that the government completed from 2010 to 2013.

## **C. Outputs**

15. Subprogram 2 is structured around four major outputs covering key areas of reform: (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. The reform actions defined for subprogram 2 are drawn from strategic planning documents including the SEDP, 2011–2015, and have been widely discussed with the government agencies and other relevant stakeholders. In addition to the policy triggers agreed for subprogram 2, progress has been achieved in areas initially not covered in the policy matrix but of critical importance for SME development. These include progress on the simplification of administrative procedures, measures aimed at reducing tax compliance costs of SMEs, and preparation of the first draft of the amendments to the Enterprise Law, 2005. In addition, progress toward amendment of the Competition Law is reflected in the policy matrix.

### **1. Enhancing the Policy and Planning Framework for SME Development**

16. The government, through the Ministry of Planning and Investment (MPI), has continued to improve the policy and planning framework for SME development, while furthering the mainstreaming of gender issues. The government issued the SEDP, 2011–2015 and launched specific programs to support the development of female entrepreneurs' skills. The government conducted regular consultations during the formulation of subprogram 2 with a wide range of stakeholders, including representatives from women entrepreneurs. The government has also improved the statistical base for SME policy formulation and now publishes size-disaggregated data on SMEs, as well as SME sex-disaggregated data by relevant categories.

<sup>9</sup> ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan Cluster and Technical Assistance Grant to the Socialist Republic of Viet Nam for the Small and Medium-Sized Enterprise Development Program*. Manila.

<sup>10</sup> ADB. 2012. *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila; ADB. 2011. *Country Operations Business Plan: Viet Nam, 2012–2014*. Manila.

## **2. Improving the Efficiency of Administrative Systems in Support of SME Development and Operations**

17. The government has accomplished a substantial simplification of administrative procedures affecting private sector operations. It has established the Administrative Procedures Control Agency (APCA) as a permanent agency under Decision 74/2010 with a mandate to review, simplify, and ensure consistency within the administrative procedures of all government agencies at both national and provincial levels. The APCA has coordinated with the relevant ministries and government agencies to simplify administrative procedures affecting businesses at national and provincial levels. As a result of these sustained efforts, the Prime Minister has ratified 25 resolutions that will allow the simplification of 4,800 administrative procedures. Under this initiative, 3,800 administrative procedures have already been simplified. Progress in this area has been reflected in a new trigger in the policy matrix. In addition, the APCA has conducted RIAs of 2,800 of these 4,800 administrative procedures.

18. The government has improved the efficiency of the national business registration system by intensifying efforts to build the capacity of provincial business registration offices. In addition, it has further simplified business registration procedures by establishing the legal validity of web-based registrations, and streamlined the issuance of enterprise codes. These codes are unique to each business entity and are used for both business and tax purposes.

19. With the approval of the Medium Term Plan for Customs Modernization, 2011–2015 by the Prime Minister, the government continues to simplify the tax and customs procedures applicable to SMEs, thereby reducing their compliance costs. The Customs General Department under the Ministry of Finance (MOF) is leading the implementation of the e-customs system for commercial imports and exports. The implementation of e-filing reduces the time to file a customs declaration from up to a full day to just minutes. Important progress has also been achieved in the simplification of the tax payment system for customs through Decision 85/2011. This allows for speedy release of goods from customs via a pilot program wherein the payment of duties is coursed through commercial banks and reported to the Treasury Department by way of an enhanced information exchange system.

20. The government, through amendment to the Law on Tax Administration, 2006 has also achieved a comparable reduction in tax compliance costs for SMEs by limiting the frequency of VAT declarations from a monthly to quarterly basis. This important progress has been reflected in a new trigger in the policy matrix.

## **3. Strengthening the Regulatory Framework for Competition Policy**

21. The government, particularly the Ministry of Justice (MOJ) and the Central Institute for Economic Management (CIEM), have strived to improve the quality of new legal documents and to extend legal protection to private businesses in the country. The MOJ has issued guidelines to conduct RIAs, with the aim of harmonizing practices across government agencies.

22. In response to demands from SMEs to improve the access to and quality of legal services, the government has continued to implement Decree 66/2008 to ensure that the rights of enterprises to conduct business are protected. Program 585 on SME Access to Legal Services was approved in 2010, which established a specialized division within the Civil Economic Legislation Department of the MOJ. The SME Legal Services Division has organized an important number of events across the country through the provincial branches of the MOJ to disseminate laws pertaining to SME development. Despite its financial constraints, the division has been able to conduct 32 round table discussions on business legislation with

6,000 participating SMEs; and 50 training courses on business legislation, training some 10,000 SME participants. The division, together with the staff of the provincial governments, has provided training to 7,600 legal representatives of SMEs on contractual issues since its creation in 2010. About half of these participants are women.

23. The government, through the Viet Nam Competition Authority (VCA), has made substantial progress toward amendment of the Competition Law and its implementing regulations. The VCA has published the 5-year Review Report on Viet Nam Competition Legislation, which together with the results of an ongoing survey of 500 enterprises and professionals, will serve as the basis for the proposed amendments to the law. The policy matrix reflects current progress, as well as the need to address the RIA for the amended law in 2014. The government also completed drafting of the amendments to the Enterprise Law in February 2013, representing an important new trigger in the policy matrix. The amendments to the law incorporate aspects of good corporate governance. The proposed amended law is expected to be submitted to the National Assembly in last quarter of 2013.

24. The government has completed a review of the implementation of the unemployment insurance scheme, covering important aspects of the scheme that are applicable to SMEs. As a result, the deadline to apply for unemployment benefits has been extended and expanded advisory services are provided for beneficiaries actively looking for jobs. Recommendations under consideration include requests to extend coverage of the scheme to smaller private companies (with 10 employees or less) and for employees with contracts beyond 3 months. In addition, the Ministry of Labor, Invalids and Social Affairs (MOLISA) has been publishing sex-disaggregated labor market data through its annual *Employment Trends* publication and website, contributing to efficient policy formulation that mainstreams gender dimensions.

#### **4. Enhancing SME Access to Finance**

25. The government has taken initiatives to increase the availability of credit to SMEs through the implementation of a number of reforms. A new draft decree on the activities of financing and leasing companies has been submitted for the Prime Minister's approval. The decree consolidates earlier regulations to provide consistency with the recent Law on Credit Institutions. The draft decree provides further clarity as to the liabilities and obligations of leasing companies and client enterprises. In addition, the government has identified SMEs as a priority sector for credit growth in 2011–2013 and has issued guidelines to provide favorable credit terms from financial institutions to SMEs. Training initiatives for financial institutions have been implemented to create specialized SME knowledge and thus facilitate access to finance.

26. The government has revised the legal framework for the credit guarantee scheme, ensuring a more balanced credit risk and collateral sharing with participating commercial banks. Decision 3/2011 establishes a maximum guarantee through VDB of 85% of the total project capital.

27. The development of sources of equity financing has progressed with the steady growth of the unlisted public companies market (UPCoM). HNX has produced an assessment of constraints to UPCoM development and a series of recommendations for its reform. The proposal has been submitted to the State Securities Commission and will effectively replace Decision 108 on the organization and operations of the UPCoM.<sup>11</sup>

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<sup>11</sup> The HNX report and assessment were assisted by the work conducted under ADB. 2009. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Third Financial Sector Program—Subprogram II*. Manila. (TA 7464-VIE).

28. Subprogram 2 successfully concludes a medium-term program of assistance to support SME development in Viet Nam. The maturity of the sector and the assessment of structural challenges to private sector development advise shifting, in terms of future direct ADB support, from policy-based loans to more targeted approaches that include both project and policy-based lending. Areas for continued policy dialogue include land reforms, SME access to legal services, and public–private partnership potential for SMEs.<sup>12</sup> Further success in private sector development in Viet Nam will largely depend on progress in key structural reforms, such as financial sector or SOE reforms, where ADB has active programs of assistance. Sustained support to policy dialogue for SME development and specific project initiatives from development partners, including World Bank and JICA will continue to anchor reform efforts.

#### **D. Development Financing Needs**

29. Subprogram 2 is estimated to cost \$50 million. The loan size is based on the financing needs of Viet Nam, the strength of the policy reform package, and its development impact. Viet Nam’s gross financing needs remain high. In 2013, with a budget deficit target of 4.8%, the government will need to borrow D162 trillion (\$7.8 billion). In 2012, deficit financing was obtained from domestic sources (44%) and external sources (56%), of which about 84% was official development assistance. Assuming a similar distribution for 2013, the government will borrow an estimated \$3.7 billion through official development assistance to close the budget gap. A summary of the expected costs and benefits of the proposed reforms is provided in para. 33, while the program impact assessment provides additional details. Viet Nam’s public debt is currently at sustainable levels. The present value of government and government-guaranteed external debt is estimated at about 27% of GDP,<sup>13</sup> which is lower than the 50% of GDP threshold of the International Monetary Fund for external debt sustainability. More than 80% of government and government-guaranteed external debt is long-term concessional financing obtained from official creditors.

30. The government has requested a loan in various currencies equivalent to SDR33,000,000 from ADB’s Special Funds resources to help finance subprogram 2. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan agreement. The loan will be disbursed in accordance with ADB’s Simplification of Disbursement Procedures and Related Requirements for Program Loans.<sup>14</sup>

#### **E. Implementation Arrangements**

31. Implementation arrangements are summarized in Table 1. The MPI will be the executing agency and will be responsible for the overall implementation of subprogram 2. The Enterprise Development Agency (EDA), MOF, MOJ, State Bank of Vietnam (SBV), Ministry of Industry and Trade (MOIT), Office of the Government (OOG), and MOLISA will be the implementing agencies and will all be responsible for the day-to-day implementation of subprogram 2. The EDA will be responsible for coordinating and monitoring implementation of the policy actions under subprogram 2. The interministerial program steering committee established under subprogram 1, chaired by the deputy minister or a designated substitute of the MPI, and comprising representatives from the EDA, MOF, MOJ, SBV, MOIT, OOG, and MOLISA, will meet semiannually, and if needed, on an ad hoc basis to monitor progress of the program, in particular, the post-program policy partnership framework; and to provide guidance and direction to the

<sup>12</sup> All these areas are currently supported under ADB technical assistance (footnote 2).

<sup>13</sup> Macroeconomic and Debt Management Assessment (accessible from the list of linked documents in Appendix 2).

<sup>14</sup> ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

executing agency and implementing agencies for post-program policy partnership framework implementation and future SME sector reforms. The government will use consultative mechanisms to facilitate dialogue among relevant stakeholders to evaluate the progress of policy actions adopted under subprogram 2 and to identify future areas of reform in the SME sector.

**Table 1: Implementation Arrangements**

Aspects	Arrangements
Implementation period	October 2010–September 2013
Estimated completion date	March 2014
Management	
(i) Oversight body	Interministerial program steering committee MPI (chair), EDA, MOF, MOJ, SBV, MOIT, OOG, MOLISA
(ii) Executing agency	MPI
(iii) Key implementing agencies	EDA, MOF, MOJ, SBV, MOIT, OOG, MOLISA
Disbursement	The \$50 million policy-based loan will be disbursed in one tranche.

EDA = Enterprise Development Agency; MOF = Ministry of Finance; MOIT = Ministry of Industry and Trade; MOJ = Ministry of Justice; MOLISA = Ministry of Labor, Invalids and Social Affairs; MPI = Ministry of Planning and Investment; OOG = Office of the Government; SBV = State Bank of Vietnam.

Source: Asian Development Bank.

### III. DUE DILIGENCE

32. Subprogram 2 has benefited from a rich array of recent studies by ADB and other development partners. The studies include the governance risk assessment prepared for the ADB country partnership strategy, the World Bank's country gender assessment, and others. In addition, the program impact assessment and the macroeconomic and debt management assessment carried out for subprogram 2 are presented as supplementary documents.

#### A. Economic and Financial

33. The impact assessment of subprogram 2 estimates that the policy reforms carried out under subprogram 2 add about \$900 million to the economy, equivalent to 0.6% of GDP.<sup>15</sup> The benefits arise from improved allocative and operational efficiencies at the regional government level. These include the simplification of administrative procedures, the reduction in tax compliance costs from reductions in the frequency of VAT declarations, and the simplification of customs and tax payment procedures. The costs of the policy reforms in terms of government administrative costs and fiscal costs of implementing such reforms amount to about \$465 million, or 0.3% of GDP. The costs include implementation of the Small and Medium Enterprise Development Plan, 2011–2015, implementation of the Medium-Term Plan for Customs Modernization, and the cost of establishment of the forthcoming SME Development Fund. The reforms articulated in Subprogram 2 are expected to provide a net benefit to the economy.

#### B. Governance

34. The government's public financial management reforms are at an early stage but steady progress is being made in improving macro-fiscal discipline, strategic allocation of resources, and efficiency of service delivery. In spite of good tax collection ratios (about 26% of GDP), the determination of actual budget deficits is compromised by the application of standards different from the Global Financial Statistics in the government's official accounts. Further efficiency of budgetary allocations (and on service delivery) requires better linkages between medium-term

<sup>15</sup> Summary Program Impact Assessment (accessible from the list of linked documents in Appendix 2). The methodology used assists in minimizing adjustment costs from reforms, justifying the proposed regulatory reforms on the basis of the expected net benefits.

planning and budgeting and between capital and recurrent expenditures. The government is reviewing the 2002 Budget Law to deepen implementation of the medium-term expenditure framework and performance-based budgeting, and to improve budget execution, monitoring, and implementation. The treasury and budget management information system is strengthening government budget reporting and accounting. Tax management and customs modernization reforms are under way, increasing the transparency of administrative procedures and reducing compliance costs for taxpayers. The government has approved the National External Debt and Public Debt Strategy, 2011–2020. As a result, aggregate public debt information has been published recently for the first time. ADB’s Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the MPI. The government is taking concrete steps to battle corruption and has adopted several legal reforms, including implementation of the Anti-Corruption Law, 2005.

### **C. Poverty and Social**

35. Subprogram 2 will contribute to poverty reduction through its support for the government’s SEDP, 2011–2015, which (i) specifies support for the development of SMEs in remote and socioeconomically disadvantaged areas; (ii) prioritizes SMEs owned by ethnic minorities and women; and (iii) targets 350,000 new SMEs to be established, generating 3.5–4.0 million new jobs during the same period, some of which will be in the disadvantaged areas. The policy reforms proposed will strengthen the regulatory business environment and reduce the administrative costs of doing business, making it easier for enterprises to enter the market and become more competitive. SME development has the greatest impact on new jobs creation, raising incomes and making more resources available for social protection.<sup>16</sup>

36. Subprogram 2 has been categorized “effective gender mainstreaming.” It will strengthen the institutional framework for SME policy making, leading to the development of gender-responsive policy and regulations to support the development of women entrepreneurs and the growth of SMEs owned by women. Subprogram 2 will facilitate the collection of sex-disaggregated data on SMEs, and will increase women entrepreneurs’ access to credit and financial services. The policies supported by subprogram 2 have identified specific targets, including an increase in the amount of women entrepreneurs to 26% by 2013 and 35% by 2020, and an explicit commitment to collect SME composition data that is sex-disaggregated. The SEDP, 2011–2015 includes provisions for specific programs to upgrade the capacity of SMEs owned by women and to provide access to credit to 286,000 women entrepreneurs. The SEDP also calls for the provision of training to women provincial registrars covering the new business registration system, and directs the General Statistics Office to publish data on women directors and firm owners disaggregated by enterprise, ethnicity, age group, and education level.

### **D. Safeguards**

37. Subprogram 2 is categorized C for environment, involuntary resettlement, and indigenous peoples.

### **E. Risks and Mitigating Measures**

38. Major risks and mitigating measures are summarized in Table 2 and described in detail in the risk assessment and risk management plan.<sup>17</sup>

<sup>16</sup> Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

<sup>17</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

**Table 2: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigating Measures</b>
Weak institutional coordination among government agencies may jeopardize the effective implementation of SME policies	The Socio-Economic Development Plan, 2011–2015 defines a clear role of the Council for Development of SMEs in its implementation, as well as the responsibilities of the major associated agencies
Low capacity of the EDA at the Ministry of Planning and Investment for subprogram 2 implementation, as EDA capacities are overstretched, slowing down the pace of implementation	Support to operations of the EDA is provided under current technical assistance; improved development partner coordination will be necessary
Slow pace of implementation of parallel reform initiatives such as SOE restructuring; financial sector reforms; and land law reforms	ADB's initiatives of assistance to SOE restructuring and financial sector reforms can improve the competitiveness of the private sector and its access to credit.
Delays in the amendments of key legislation for private sector development, including in the review and amendment of the Enterprise Law and the Law on Competition	The upcoming Economic Management Competitiveness and Credit Program loan, with ADB support, will provide continuity to the still unfinished policy dialogue on key legislation
Lack of skills and experience to run internationally competitive medium-sized and large firms	An upcoming SME survey on entrepreneurship will inform ADB's vocational training programs and suggest future initiatives in the area
Global economic crisis may jeopardize SME development strategy, because of the focus on the integration of SMEs into global production chains	A potential slump in exports caused by the downturn in consumption in Europe and its possible effect on other developed countries may jeopardize the prospects of SMEs. Adaptive economic policies are required.

ADB = Asian Development Bank; EDA = Enterprise Development Agency; SMEs = small and medium-sized enterprises; SOE = state-owned enterprise.

Source: Asian Development Bank.

#### **IV. ASSURANCES**

39. The government and the MPI have assured ADB that implementation of subprogram 2 shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan agreement.

#### **V. RECOMMENDATION**

40. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan in various currencies equivalent to SDR33,000,000 to the Socialist Republic of Viet Nam for subprogram 2 of the Second Small and Medium-Sized Enterprises Development Program, from ADB's Special Funds resources, with an interest charge at the rate of 2.0% per annum during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao  
President

23 September 2013

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> Increased contribution of SMEs and the private sector in achieving sustainable high economic growth</p>	<p>By 2015: Number of newly registered enterprises increased by 350,000 in 2011–2015 (2010 baseline: 550,000)</p> <p>Share of employment in domestic private sector increased to 63% (53% in 2007)</p>	<p>GSO annual statistics</p> <p>White Paper on Small and Medium-Sized Enterprises in Viet Nam 2011<sup>a</sup></p>	<p><b>Assumption</b> Macroeconomic stability remains and economic growth continues</p> <p><b>Risk</b> External environment deteriorates, increasing stress on fiscal policy</p>
<p><b>Outcome</b> Improved business environment to support more competitive SMEs and the private sector</p>	<p>By end of 2013: Increased private sector investment (non-state and foreign direct investment) per gross investment to 68% (2007 baseline: 62%)</p> <p>Reduce cost of starting a business to 10% of per capita income by 2014 (2008 baseline: 13.5%)</p>	<p>GSO database</p> <p>World Bank's Doing Business report</p>	<p><b>Assumption</b> Government stays on course with key macroeconomic reforms and business regulatory reforms. Government is committed to the implementation of administrative procedure reforms.</p> <p><b>Risk</b> Weak coordination of government agencies and stakeholders to participate in implementing reforms</p>
<p><b>Outputs</b> 1. Enhanced policy and planning framework for SME development</p> <p>2. Improved efficiency of administrative systems in support of SME development and operations</p>	<p>Program in support for women-owned enterprises included in Small and Medium Enterprise Development Plan 2011–2015.</p> <p>SME statistical database improved and maintained by 2012 (baseline: GSO enterprise survey 2007)</p> <p>4,800 administrative procedures reviewed by 2013</p>	<p>MPI reports</p> <p>Small and Medium Enterprise Development Plan 2011–2015.</p> <p>White Paper on Small and Medium-Sized Enterprises in Viet Nam 2011 and MPI CIEM Reports</p> <p>GSO enterprise survey database</p> <p>OOG report</p>	<p><b>Risks</b> Weak capacity of government agencies to implement reforms.</p> <p>Slow pace of implementation of parallel reforms constraint SME development (i.e. SOE reform, Financial Sector Reform, etc.)</p>



Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>3. Strengthened regulatory framework for competition policy</p> <p>4. Enhanced SME access to finance</p>	<p>Number of days required to process a business registration application – reduced to 8 by 2013 (2008 baseline: 10 days)</p>	<p>World Bank’s Doing Business reports</p>	
	<p>Number of days required to start a business reduced to 44 by 2013 (2008 baseline: 50 days)</p>	<p>World Bank’s Doing Business surveys</p>	
	<p>Goods from customs released in 22 days (export clearance and 21 (import clearance) by 2013. (2009 baseline: 24 and 23 days)</p>	<p>Provincial competitiveness index</p>	
	<p>Time to pay taxes reduced to 945 hours by 2013 (baseline 2009: 1,050 hours)</p>	<p>World Bank’s Doing Business surveys</p>	
	<p>Number of annual VAT declarations reduced to 4 by 2013 (2008 baseline: 12)</p>	<p>MOF</p>	
	<p>30% of SMEs registered under the web based registration system are female owned by 2015 (2007 baseline: 22%)</p>		
	<p>Completion of the 5-year Competition Law Enforcement review by 2012</p>	<p>VCA reports</p>	
	<p>Completion of consolidated manual on RIA by 2013.</p>	<p>MOJ reports</p>	
	<p>Completion of first draft of amended Enterprise Law by 2013.</p>	<p>CIEM</p>	
	<p>Share credit to SMEs in total bank credit increased by 2%–3% annually (2009 baseline: 15%)</p>	<p>State Bank of Vietnam reports</p>	

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>Number of loans approved supported by the government guarantee scheme increased to 1500 by 2012 (2009 baseline: 1,164)</p> <p>Number of SMEs listed in UPCoM increased to 100 by 2013 (2009 baseline: 10)</p> <p>286,000 women entrepreneurs supported to access credit by 2013</p>	<p>Vietnam Development reports</p> <p>Report from Hanoi Stock Exchange</p> <p>Report from the Viet Nam Women's Union</p>	
<p><b>Activities with Milestones</b></p> <p><b>1. Enhanced policy and planning framework for SME Development</b></p> <p>1.1 Issue the second SME Development Plan 2011- 2015 (September 2012)</p> <p>1.2 Update SME White Paper including data breakdowns on SMEs by size and sex-disaggregated (September 2012).</p> <p><b>2. Improved efficiency of administrative systems for SME development and operations</b></p> <p>2.1 Establish a permanent agency for administrative procedure control and simplification (December 2011)</p> <p>2.2 Review implementation of the pilot e-customs system and instruct full implementation (June 2012).</p> <p>2.3 Introduce new tax payment method to reduce time compliance (September 2012).</p> <p><b>3. Strengthened Framework for Competition Policy</b></p> <p>3.1 Issuance of a manual for the implementation of regulatory impact assessments (September 2011).</p> <p>3.2 Review implementation of the Law on Competition and prepare draft amendments (June 2012).</p> <p><b>4. Enhanced SMEs Access to Finance</b></p> <p>4.1 Review the legal framework for the credit guarantee scheme (December 2011).</p> <p>4.2 Review implementing regulations on leasing (February 2013).</p> <p>4.3 Conduct diagnostic study of UPCoM operations (December 2012).</p>			<p><b>Inputs:</b></p> <p>Subprogram 1: ADB \$40 million equivalent</p> <p>Subprogram 2: ADB: \$50 million equivalent</p> <p>ADB policy and advisory technical assistance (2012): \$800,000</p>

ADB = Asian Development Bank, CIEM = Central Institute for Economic Management, GSO = General Statistics Office, MOF = Ministry of Finance, MOJ = Ministry of Justice, MPI = Ministry of Planning and Investment, OOG = Office of the Government, RIA = regulatory impact assessment, SMEs = small and medium-sized enterprises, SOE = state-owned enterprise, UPCoM = unlisted public companies market, VAT = value-added tax, VCA = Viet Nam Competition Authority.

<sup>a</sup> Ministry of Planning and Investment. 2012. *White Paper on Small and Medium Sized Enterprises in Viet Nam 2011*. Ha Noi.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://adb.org/Documents/RRPs/?id=41360-014-3>

1. Loan Agreement
2. Sector Assessment (Summary): Finance (Small and Medium-Sized Enterprises Finance and Leasing)
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items

### **Supplementary Documents**

10. Summary Program Impact Assessment
11. Macroeconomic and Debt Sustainability Assessment

**DEVELOPMENT POLICY LETTER**

Ha Noi, 5 August 2013

Mr. Takehiko Nakao  
President  
Asian Development Bank  
Manila, Philippines

Subject: Viet Nam SME Development Program 2 – Subprogram 2

Dear Mr. Nakao:

This letter outlines the Government of Viet Nam's policy for the development of small and medium enterprises (SMEs) and our request for financial assistance from the ADB. It should be read in conjunction with the attached policy matrix in which we have identified key policy initiatives under our medium-term reform agenda. Eliminating constraints for the development of SMEs remains a key pillar of the Government's new Socioeconomic Development Strategy 2011-2020, and the Socioeconomic Development Plan (SEDP) 2011-2015.

The Government has approved the SME Development Plan (SMEDP) 2011-2015, emphasizing the core, and long-term role of SME development in the country's economic growth and poverty reduction strategy. Upon implementation of the SMEDP, over 600,000 SMEs will be in operation in Viet Nam, representing over 40% of GDP and contributing, over the same period, to the creation of 3.5 to 4 million jobs. The achievement of these targets will require re-doubling efforts to complete the legal framework and policy environment for SME development, and enhancing access to credit for SMEs. It will also require the technological and skills upgrade of the domestic private sector, with a view towards the further integration of Vietnamese SMEs into global production chains. Reflecting Government efforts towards participatory planning processes, the SMEDP 2011-2015 has benefited from broad based consultations in which the mainstreaming of gender considerations has played a key role. The implementation of the SMEDP 2011-2015 will increase the contribution of SMEs to Viet Nam's sustainable economic growth.

In order to assist the implementation of SME development policies, the Government of Viet Nam entered a medium term partnership with ADB articulated into the SME Development Program 2, which included two subprograms. The first subprogram was approved by ADB Board in October 2010. The proceedings of the proposed second subprogram will be used primarily to support SME development related spending as defined in this policy letter. This includes, among others, the cost of implementation of the SME Development Plan 2011-2015, the Medium-Term Plan for Customs Modernization and reforms leading towards improved access to finance by SMEs. The SME Development Program 2 has made and will continue to make, through the monitoring of actions outlined in its post-program partnership framework, a critical contribution in support of the Government's strategy for SME development. It has assisted the Government's goals of ensuring fast and sustainable economic growth and progressing towards economic structuring in order to improve the quality and competitiveness of the economy.

**Recent Economic Performance**

Viet Nam enjoys macroeconomic economic stability in the aftermath of the global economic crisis and an episode of domestic economic overheating. In early 2011, the Government implemented Resolution 11 in order to address the high and rising inflation, the volatility in the foreign exchange market, rapidly declining foreign reserves, and high levels of fiscal and trade deficits. The results have been positive. In 2012, the country averted macroeconomic instability,

eased inflationary pressures, stabilized the exchange rate, and improved fiscal and external accounts. The State Bank of Vietnam (SBV) has also been able to replenish foreign exchange reserves.

The Government's efforts to restore macroeconomic stability have taken priority over sustained fast economic growth. As a result, the economy grew by just 5.25% of GDP in 2012, a slower pace than the 7.6% average growth rate of the four years prior to the global economic crisis. The Government has assisted growth by stepping up its public investment program in light of somewhat weaker domestic consumption and investment.

Viet Nam has been able to strengthen its external accounts. The trade account recorded a surplus in 2012, reflecting strong export performance. Government reforms have contributed to a steep decline in inflation rates. By March 2013, headline inflation for the year had fallen to 7%, down from 23% in August 2011. Lower inflation signals the effectiveness of Government's Resolution 11 as it was achieved in the framework of still high global commodity prices. In response to falling inflation and the perceived slowdown in growth, the State Bank of Viet Nam cut policy interest rates in order to assist private sector investment. On the fiscal front, the Government has redoubled its efforts to achieve fiscal consolidation by targeting more efficient public investment. The estimated budget deficit will be 4.8% of GDP in 2013, anchored on expected strong revenue performance.

Going forward, the Government remains committed to sustaining macroeconomic stability, through a combination of cautious monetary and fiscal policy. Current inflationary trends will continue to be monitored while credit growth increases steadily to stimulate investment and consumption. In parallel, the Government will continue to apply selective fiscal incentives within the framework of current efforts towards consolidation. Progress in the implementation of structural reforms and an improved outlook of the major markets for Vietnamese exports will allow for higher rates of growth in 2014.

The Government acknowledges that the development of the domestic private sector in Viet Nam, and particularly the development of SMEs, is highly dependent on a number of structural reforms currently under way. The latter include efforts towards the deepening of financial markets so as to create sufficient credit space and adequate financing options for the private sector. The expansion of lending to the private sector will be facilitated by the Government's determination to address the current scale of non-performing loans. In addition, the Government will continue efforts towards the re-structuring of the State Owned Enterprise (SOE) sector by issuing in 2013 a roadmap for the reform of SOEs.

## **The SME Development Program 2**

The SMEDP 2011-2015 states the need to boost SME development by improving their general competitiveness and facilitating their integration into global production chains. The Government has defined ambitious targets for the SME sector, including the creation of 3.5 to 4 million jobs over the period 2011-2015. The SME sector is expected to contribute 35% of total investment and 30% of state budget revenues by the end of the plan implementation.

The SME Development Program 2 articulates ADB's program of support to the Government of Viet Nam's SME development strategy. Guided by Viet Nam's policy priorities in the sector, the program has assisted critical progress on four main areas: a) enhancing the policy and planning framework for SME development; b) improving the efficiency of administrative systems in support of SME development and operations; c) strengthening the regulatory framework for competition policy; and d) enhancing SME access to finance. The Government's reform efforts

in this area have translated into an improved contribution of the domestic private sector to employment to some 59% of total employment in 2011, from 53% in 2008. In addition, there were some 550,000 enterprises registered in Viet Nam in 2012.

**a. Enhancing the policy and planning framework for SME Development**

The implementation of the second subprogram of the SME Development Program 2, between 2010 and 2013, has assisted furthering SME reforms in all of the above areas. The approval of the SMEDP 2011-2015 culminated a rich and participatory process that included consultations with all relevant stakeholders. The plan was informed by the evaluation of the first SME Development plan 2006-2010, and also by determined efforts towards the upgrading of the statistical databases that underpin the formulation of strategies in support of SME development. Reflecting Viet Nam's concerns to ensure gender equity, the SMEDP 2011-2015 contains specific programs in support of the development of skills of women entrepreneurs.

**b. Improving the efficiency of administrative systems in support of SME development and operations**

The Government has substantially improved the efficiency of administrative systems in support of SME development in a number of fronts. In the area of business registration, the Government now acknowledges the legal validity of web-based registrations through the national business registration system and has streamlined the issuance of enterprise and tax codes. The simplification of the business registration process has reduced the time required to process a business registration application by 20% since 2008. The Government has, in addition, established the Administrative Procedures Control Agency as a permanent institution, underlining its commitment for the continued simplification of business procedures. Viet Nam's record in this area is commendable by all international standards. The Prime Minister has ratified 25 ministerial resolutions that will allow the simplification of 4,800 administrative procedures. As of end of 2012, 3,800 of these procedures had been simplified.

In support of the simplification of tax and customs policies, the Government has approved the Medium Term Plan for Customs Modernization 2011-2015. Among the first accomplishments in the implementation of the plan, the nation-wide implementation of the e.customs systems has been completed. The system reduces considerably the time and effort required in filing customs declarations and is being implemented currently by over 40,000 businesses across the country. Progress has also been achieved in the simplification of the tax payment system for customs through Decision 85/2011. The latter allows for reductions in the time required for release of goods from customs via a pilot program wherein the payment of duties is coursed through commercial banks and reported to the Treasury Department by way of an enhanced information exchange system. Finally, through the recent amendment to the Law on Tax Administration, the Government has reduced tax compliance costs for SMEs by reducing the frequency of VAT declarations from monthly to quarterly basis. Overall, businesses employ one hundred hours less in complying with taxes in 2013 than in 2009.

**c. Strengthening the regulatory framework for competition policy**

The Government has strengthened the regulatory framework for competition policy with the completion of a five year enforcement review of the Law on Competition that will guide its amendment. Moreover, the issuance of guidelines for the preparation of regulatory impact assessments across agencies will assist the harmonization of procedures and the preparation of more accurate estimates of regulatory costs and benefits. The Government continues to improve legal support to SMEs through the implementation of Program 585 of the Ministry of

- Justice. The Program has established a new division within the ministry to provide legal assistance to SMEs.

#### **d. Enhancing SME access to finance**

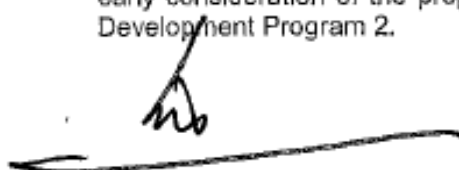
Improving SMEs access to finance continues to be a policy priority for the Government. In this area, the SME Development Program 2 has assisted Government efforts in the provision of training to credit institutions in order to facilitate access to finance by SMEs. The Government has issued guidelines to ensure credit is provided on favorable terms to SMEs, and has recently drafted a new decree on leasing that will enhance the availability of this financing alternative to SMEs. Efforts towards improving access to finance for female entrepreneurs continue through a variety of initiatives. The combination of Government initiatives in this area has allowed increasing the share of credit to SMEs from 15% in 2009 to some 27% in 2012.

Efforts towards the reform of the regulatory framework for the Credit Guarantee Scheme continue. The Government has ensured a more balanced credit risk and collateral sharing mechanism from the scheme, which is implemented by the VDB. In addition, the regulatory framework for the local credit guarantee schemes is being reviewed towards improving corporate governance and strengthening their institutional and financial management procedures. Lastly, the Government continues to improve access to equity finance for SMEs with the further development of the unlisted public companies market (UpCom).

#### **Conclusion**

In closing, Mr. President, the Government reiterates its commitment to the development of Viet Nam's SME sector. We will continue to work in coordination with ADB and other development partners to fully implement the policy framework outlined in the SMEDP 2011-2015. A vibrant domestic private sector remains a cornerstone of Viet Nam's economic growth and employment creation strategy.

We deeply appreciate ADB's leading role in support to SME development reforms over the long term. To assist continuation of recent, successful efforts, we look forward to sustained policy dialogue with the ADB in the framework of the post-program partnership framework, and the early consideration of the proposed policy-based loan for the second subprogram of the SME Development Program 2.



Bui Quang Vinh  
Minister of Planning and Investment

## POLICY MATRIX

Policy Action	Subprogram 1 Summary of Actions Accomplished Under Subprogram 1 (September 2010)	Subprogram 2 Summary of Actions Accomplished Under Subprogram 2 (September 2013)	Post-Program Policy Partnership Framework
<b>A. Enhancing the policy and planning framework for SME development</b>			
1. Improve policy/planning framework for SME development initiatives. (MPI)	1.1 MPI approved the publication of the first SME White Paper summarizing key issues and actions taken to address constraints to on private sector/SME development.	MPI, in coordination with other government agencies and stakeholders, has improved the policy and planning framework for SME development by:  1.1 Evaluating the implementation of the first Five Year SME Development Plan 2006-2010 and disseminating the results of such evaluation among stakeholders. (Accomplished)	Institutionalized better policy making process for promoting SME development with increasing use of SME data and improved stakeholder consultation.  Annual reports on the implementation of the SMEDP are widely shared and discussed with stakeholders.  Further development of improved SME sex-disaggregated databases
	1.2 MPI upgraded and maintain SME information website to include links with available statistical data of SMEs.	1.2 <b>Conducting consultations with relevant line ministries, provincial governments, Viet Nam Women Entrepreneur's Council and development partners to discuss the draft SME Development Plan 2011-2015.</b> (Accomplished)	
	1.3 Government issued Decree 56/2009 to reform the policy environment and policy support for SMEs, with a provision to support women-owned enterprises	1.3 In accordance with the definition of SME set out in Decree No. 56/2009, publishing SME composition data disaggregated by size. The Government has also published sex-disaggregated data. (Accomplished)	
	1.4 Government issued Resolution No. 22/2010 to provide guidelines for implementation of Decree 56 on provision of support policies for SMEs.	1.4 <b>Issuing the second SME Development Plan 2011-2015, containing specific programs in support of women entrepreneurs.</b> (Accomplished)	



	1.5 MPI started seeking inputs from line ministries, provincial governments, business association and other stakeholders on the implementation of latest SME development policies (Decree 56 and Resolution 22)	1.5 Publishing the SME White Paper 2011 containing comprehensive analysis and statistics on the SME sector. (Accomplished)	
	1.6 MPI submitted to Prime Minister for approval a new Decision to enhance the role of SME Promotion Council in supporting SME development.	1.6 Approving the National Strategy on Gender Equality 2011-2020 which specifies a target of 30% increase in women entrepreneurs by 2015. (Accomplished)	
<b>B. Improve the efficiency of administrative systems in support of SME development and operations</b>			
2. Improve and develop national business registration system. (MPI)	2.1 MPI implemented the new national web-based business registration (NBRS), which simplifies and unifies the process across 63 provinces and consolidate the information nationally.	<p>MPI has improved the efficiency of the national business registration system by:</p> <p>2.1 Capacity building of the provincial registrar offices to implement the new national business registration system. Around 40% of officer trained were women (Accomplished)</p> <p>2.2 Acknowledging pursuant to Decree No. 43/2010 validity of web-based registrations and streamlining and coordinating the issuance of tax and enterprise codes through the national business registration system. (Accomplished)</p>	<p>Established an efficient and consistent electronic -base national business registration system.</p> <p>Coordinating business registration information with GSO databases and EDA's Database for consistent reporting.</p>
3. Simplify administrative procedures. (OOG)	3.1 OOG published in the web site all existing administrative procedures affecting businesses at both the national and provincial levels.	<p>The Government has substantially simplified the administrative procedures through Project 30 and by:</p> <p><b>3.1 Establishing APCA as a permanent agency under Decision No. 74/2010 to regularly review consistency and simplify administrative procedures of all</b></p>	<p>Improved business certainty and reduced the cost of compliance with Government regulations.</p> <p>Simplification of remaining 1000 APs.</p> <p>Institutional strengthening of the APCA.</p>

		<b>government agencies. (Accomplished)</b>	
	3.2 Government issued Decree 63/ND-CP on Administrative Procedure Control to institutionalize the control mechanism for administrative procedures from drafting to implementation phase.	3.2 Enabling APCA to coordinate with the relevant ministries, government agencies and business associations to ensure simplification of administrative procedures affecting businesses at both national and provincial levels. (Accomplished)	
	3.3 Government issued Resolution 25/NQ-CP on the simplification of 258 prioritized administrative procedures including those in tax, custom, land, building and real estate sectors.	<b>3.3 The Prime Minister ratifying 25 ministerial resolutions that allow simplification of around 4,800 administrative procedures. Of these administrative procedures, around 3,800 have already been simplified. (Accomplished)</b>  3.4 APCA conducting RIAs of around 2700 of the administrative procedures mentioned in 3.3 above. (Accomplished)	
4. Simplify tax and customs policies and administration procedures. (MOF)	4.1 MOF implemented pilot e-customs program to 10 provinces.	MOF has substantially simplified tax and customs procedures to reduce compliance costs for SMEs by:  <b>4.1 Requiring full implementation of the e.customs system for commercial imports and exports through Decree No. 87/2012/ND-CP. (Accomplished)</b>	Continue to reduce tax compliance costs extending recent progress to other tax instruments.  Ensure full implementation of the Medium-Term Plan for Customs Modernization 2011-2015
	4.2 MOF issued a Master Plan for implementation of the ASEAN Single Window.	4.2 Granting the Prime Minister's approval to the Medium Term Plan for Customs Modernization 2011-2015. (Accomplished)  <b>4.3 Implementing a simplified tax payment system through Decision No. 85/2011</b>	

		<p><b>that facilitates speedy release of goods from customs. (Accomplished)</b></p> <p><b>4.4 Reducing the submission of VAT declarations from monthly to quarterly basis under the amended Law on Tax Administration. (Accomplished)</b></p>	
<b>C. Strengthen the regulatory framework for competition policy</b>			
5. Improve the quality of the new legal documents and provide legal support for businesses. (MOJ)	5.1 National Assembly amended Law on Laws to strengthen provisions on consultations and regulatory impact assessments.	<p>MOJ has strived to improve the quality of new legal documents and extend legal support to private businesses by:</p> <p><b>5.1 Issuing guidelines to conduct RIAs across government agencies. (Accomplished).</b></p>	<p>Institutionalized a standard system of regulatory review and quality control to improve the quality of business related regulations</p> <p>Fair competition (including free entry and exit) promoted for SMEs across all sectors in Viet Nam</p> <p>Extend PPPs opportunities to SME sector in Viet Nam</p>
	5.2 Government issued a Decree 24/2009 on implementing regulations for regulatory impact assessment.	5.2 MOJ and the CIEM undertaking regular trainings on the guidelines for Government officials. (Accomplished)	
	5.3 MOJ reorganized the ministry based Decree 93/2009 and assigned the General Department to be responsible for law preparation and RIA enforcement	5.3 Reviewing the implementation of Decree 66/2008 and Program 585 on legal support to SMEs. (Accomplished)	
	5.4 Government issued 66/2008 on legal support to enterprises to ensure their rights to conduct business are protected.	5.4 Establishing a new division within the MoJ to assist the implementation of Decree 66 and Program 585. (Accomplished)	<p>Assist implementation of Program 585 with adequate resources.</p> <p>Competition Law and Enterprise Law approved by the National Assembly in 2014.</p> <p>Merger of VCA and the VCC to allow for the institutional strengthening of the authority.</p>
	5.5 VCA published a report reviewing the status, and providing perspectives on, economic concentration in Viet Nam.	<b>5.5 VCA completing a 5-year enforcement review of the Competition Law to guide the amendment of the law and implementing regulations. (Accomplished)</b>	
		5.6 VCA undertaking advocacy activities on Competition Law,	Improvements to the technical definitions of

		including organization of seminars to introduce the law. (Accomplished)	market share allow efficient determination of monopolistic power through mergers and acquisitions.
		<b>5.7 CIEM preparing the first draft of the amended Enterprise Law 2005. (Accomplished)</b>	
6. Improve labor market regulation, labor relation and labor market data collection system. (MOLISA)	6.1 MOLISA implemented provision of Social Insurance Law to replace severance pay with unemployment insurance	MOLISA continues to implement the Unemployment Insurance Scheme, striving for expanded coverage and quality of services provided to assist re-integration of beneficiaries into the labor market by:  6.1 Reviewing the implementation of the Unemployment Insurance Scheme for private companies and expanding the coverage of the Scheme. (Accomplished)	A more flexible labor market developed to support SME employment and development.  Streamlining procedures for registering, claiming and receiving unemployment insurance benefits.  Improve dissemination of the scheme and efforts towards improving the share of employees that return to work before end of benefits.
	6.2 MOLISA established a Center for Industrial Relations to support improved labor relations.	6.2 Publishing sex-disaggregated labor market data through its annual 'Employment Trends' publication and website. (Accomplished)	
<b>D. Enhancing SME access to finance</b>			
7. Improve SMEs' access to conventional commercial bank lending. (SBV)	7.1 SBV issued Circular 12/2010/TT-NHNN to provide guidance to credit institutions on VND lending with negotiation-based interest rate, including for short-, medium- and long-term lending for development investment, service and business projects.	SBV has improved access to credit by SMEs with the implementation of a number of reforms, including by:  7.1 Providing training to credit institutions to facilitate access to finance by SMEs. (Accomplished)	Develop a more flexible interest rate environment that is conducive for commercial bank lending to SMEs.  Develop a more diverse range of debt financing products and services for SMEs to access.
		7.2 VWU supporting access to targeted credit to around 286,000 women entrepreneurs. (Accomplished)	
		7.3 Issuing guidelines to provide favorable credit terms from financial institutions to SMEs.	

		(Accomplished)	
8. Improve SMEs' access to alternative financial services. (SBV)	8.1 National Assembly passed the Law on SBV with a provision that allows SBV, under certain circumstances, to regulate the interest rate mechanism applicable to credit institutions and between credit institutions and customers.	8.1 Submitting a new draft Decree on activities of financing and leasing companies for the approval of the Prime Minister which is intended to consolidate earlier regulations to ensure consistency with the recent Law on Credit Institutions.	Allow for more efficient financing of leasing companies to facilitate their operations.
	8.2 MPI in collaboration with MOF completed a final draft of a joint-circular on the government-funded capacity building programs to improve SME competitiveness and access to finance.	(Accomplished)	
	8.3 Government issued Decree 95/2008 aimed at improving SMEs' access to leasing finance.		
9. Establish credit guarantee activities in support of SMEs' improved access to (debt) finance. (MOF)	9.1 Government implemented the Credit Guarantee Scheme for SMEs.	<b>9.1 MoF revising the regulatory framework of the Credit Guarantee Scheme, providing for a balanced credit risk and collateral sharing with commercial banks. (Accomplished)</b>	Maintained a viable and sustainable market-based credit guarantee system in support of greater SME-oriented lending.
	9.2 Based upon the initial experiences, VDB reviewed the scheme and proposed revision to MOF focused on credit risk and collateral sharing with the participating banks.		
10. Improve access to equity finance and corporate governance practices in larger SMEs. (MPI and MOF)	10.1 MOF issued a Decision on the trading of unlisted (public) securities at HNX, to support the development of the UPCoM.	10.1 Producing a diagnostic study with specific recommendations for improving the efficiency, trading volume and number of listed companies of the UPCoM market. (Accomplished)	Improved access to equity finance and corporate governance standards and practices in larger SMEs.

	<p>10.2 HNX commenced pilot operations of the UPCoM market in Hanoi for unlisted public companies.</p>		
	<p>10.3 MPI submitted to the Government a revised Decree 139/2007/ND-CP to improve existing regulations on the rights and protection measures for minority investors in joint stock companies</p>		