

# Overview and Assessment of the current SME Development Policy and Supporting Industry Promotion Policy in Vietnam

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## Abstract

The paper discusses the general background of rise of the Vietnamese small and medium-sized enterprises (SMEs), and the contemporary significance of the Vietnamese supporting industry promotion policy through reviewing existing research papers and published statistics. Firstly, in the chapter 1, the rise of the private sector with advanced deployment since the Doi Moi<sup>1)</sup> (Nguyen Thi Tue Anh, 2014) is overviewed in a brief. The following chapter 2 discusses a trend of the Vietnamese SMEs enhancement policy, which includes supporting industry development policy for SMEs. The third chapter summarizes actual situation and some challenges regarding the Vietnamese SMEs supporting policy as well as some policy implication for improvement of the current Vietnamese SME policy implementation.

## I Confirmation of the rising trend of the private sector after the Doi Moi

Equitization of the Vietnamese state-run-enterprises (Hattori, 2007) and full-scale formation of the private enterprises have been started after 2000 (EBashi, 1997), (Kotani, 2002). Thus a number of private enterprises have rapidly soared in Vietnam since 2000. Simultaneously, a large number of SMEs including of individual enterprises have also been emerged. In here, in order for the above-mentioned trend to be quantitatively confirmed, the characteristics of the number of the enterprises by each type of ownership, which are state-owned, private and foreign capital, are extracted with reference to the specific Vietnamese enterprises statistics since 2000. As for private enterprises which have been entrepreneurs since 2000, the number and its share are significantly large comparing to those of state-owned enterprises through 2000 to 2013. Total number of

enterprises in 2000 is 42,288. Among them, the number of state-owned enterprises is 5,759 (13.6%), the private enterprises are 35,004 (82.8%), and foreign-invested enterprises are 1,525 (3.6%). On the other hand, in 2013, total number of enterprises is 373,213 (8.8 times compared to the number in 2000). Among these, 3,199 are state-owned enterprises (0.9%), the private enterprises are 359,794 (96.4%), and foreign-invested enterprises are 10,220 (2.7%). As for the increasing rate of the number within 13 years, state-owned enterprises show 44.5% decline, the private enterprises show 10.3 times increase, and 6.7 times increase for the foreign-invested enterprises. Thus, private enterprises show significant increasing trend seen as above.

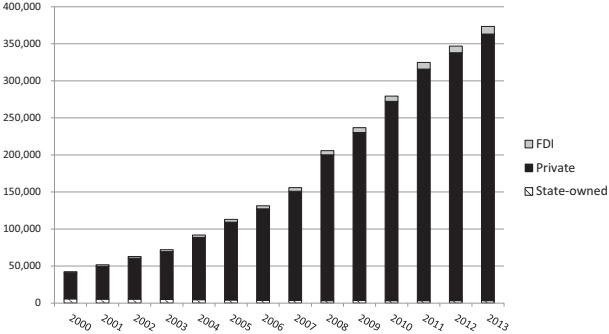


Figure-1 Trend of the number of enterprises by each type of the ownership  
 Source: Vietnam Statistics Bureau, Statistical Yearbook 2005, 2009, 2014

Looking at the number of enterprises by number of employees, in 2000, enterprises with less than 10 employees are 22,638 (53.5%), the ones with more than 10 and less than 200 employees are 14,396 (34.0%), and the ones with more than 300 employees are 3,405 (8.1%). In 2013, the number of the enterprises with less than 10 employees is 225,037 (67.6%), the ones with less than 200 and more than 10 employees are 93,036 (28.0%), and the ones with more than 300 employees are 7,864 (2.4%). As for the growth rate from 2000 to 2013, it is about 10 times increase for the enterprises with less than 10 employees, while the one of the enterprises with more than 300 employees is 2.3 times. Thus it can be said that number of SMEs especially the one with less than 10 employees accounted for the overwhelming majority, and they show the significant growth.

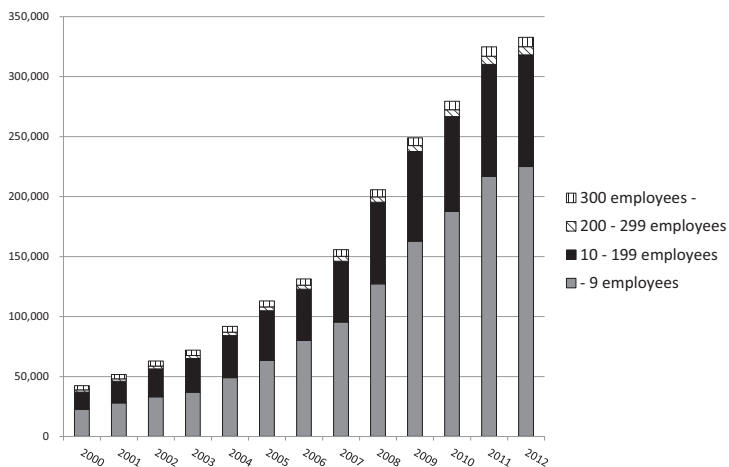


Figure-2 Trend of the number of enterprises by number of employees  
 Source: Ministry of Planning and Investment, SMEs White Paper 2008, 2011, 2014

As seen in previous sections, the number of enterprises and employees of SMEs have been built up rapidly and significantly in Vietnam since 2000 and up to today. It can be said that the existence of the SMEs and scale of employees of SMEs in Vietnam is extremely large. Given the above-mentioned background, formulation of appropriate and effective SMEs development policies, and steady implementation of those policies have become a pressing issue.

## II Vietnamese SMEs development policy and supporting industry enhancement after the Doi Moi

The basic laws and regulations for SMEs development policy in Vietnam are Decree No.90/2001/ND-CP, and Decree No.56/2009/ND-CP as an amendment of Decree No.90. In these laws and regulations, the following specific policy items have been raised, such as, in particular, stabilization of SMEs management, job security, strengthening technical capability of SMEs, SMEs financial support and technical support. In those policies, the following business entities are the policy targets such as SMEs, which include private enterprises as well as state-owned-enterprises, and even large-scale enterprises.

As for the supporting measures for Vietnamese SMEs, there are

several different types of series. Those series can be classified into the following two. Namely, they are 1) SMEs technology and information provision support, and 2) financial support. Further, the series of technology and information provision support can be classified in terms of governmental entities which are in charge as follows. That is, a) a series of Ministry of Planning and Investment (MPI), and b) a series of Ministry of Industry and Trade (MOIT). Also, the financial support series can be classified into a) a MPI series, b) a Ministry of Finance (MOF) and the Central Bank series, and c) a local authority series.

## **1. Agencies in charge and relevant policy for SMEs technology and information provision support**

### **(1) Agencies in charge and policy in a MPI series**

The highest ranked SMEs support policies positioned in the MPI series are the Decree No.90/2001/CP-ND, and its amendment, i.e., Decree No.56/2009/ND-CP<sup>2)</sup>. On the basis of those Decrees, establishment of the following new agencies was stipulated, such as SME Development Encouragement Council (SMEDEC), Agency for SME Development (ASMED), and SME The Assistance Center (TAC). Among those agencies, ASMED was reorganized as the Agency of Enterprise Development Agency (AED) on April 10<sup>th</sup> in 2009, of which duty was not limited to the SMEs development.

In addition, as for Foreign Investment Agency (FIA) and its subordinate organization, i.e., the Investment Promotion Center (IPC), their duty and responsibility are stipulated in the Decree No.61/2003/ND-CP, which is basically stipulating the jurisdiction of MPI. FIA has developed the Vietnamese 500 SMEs database, and now the database is opened to the public on the FIA web-site. In addition, FIA is supporting the implementation promotion of business matching between local SMEs and foreign-invested enterprises.

In addition to the above-mentioned central level policy implementation entities, other local level policy implementation bodies are in operation such as SME Support Center. This entity carries out the technical assistance for local SMEs in the municipalities and provinces, on the basis of the jurisdiction of the Department of Planning and Investment (DPI).

The jurisdiction and duty of the above-mentioned agencies are described as follows.

## 1) SMEDEC: SME Development Encouragement Council

SMEDEC is the highest ranked SME policy dialogue council, of which major duty is to advise to Prime Minister in the field of SMEs supporting policy formulation. Configuration of SMEDEC is stipulated in Decree No. 90, and No. 56 and Prime Minister Decision No.1918/2010/QD-TTg. According to them, the council is chaired by the Minister of MPI, and Deputy Minister of MPI is designated as the standing committee member, and AED representative is responsible for management of the Standing Secretariat. In addition, each of the central government ministries and agencies is nominated as the part-time member of the council, which includes the state bank, five municipalities like Ha Noi, Ho Chi Minh City, Da Nang, Hai Phong and Can Tho, and the Vietnam Chamber of Commerce and Industry (VCCI), as well as each of the representatives of major industry associations. As for major functions and duties of SMEDEC, the Prime Minister Decision No.1918/2010/QD-TTg is stipulating that policy advisory function as to promotion of SMEs enhancement policy for the prime minister, and further advisory function of SMEs policy promotion mechanism is defined as the SMEDEC function. In the Decision No.975/QD-BKHDT formulated by MPI Minister and SMEDEC chairman, the operating rules of SMEDEC have been promulgated. The decision regulated that regular meeting of SMEDEC once in six months or one year should be held.

## 2) ASMED: Agency for SME Development, and AED: Agency of Enterprise Development

Duties of ASMED were stipulated in the MPI Minister Decision No.504/QD-BKH. Namely, a) formulation of legislative measures which are necessary for the support for SMEs, b) support of MPI Minister on SME promotion policy, c) business registration, d) act as a permanent secretariat of SMEDEC. Furthermore, SMEDEC is obliged to report to the prime minister regarding the actual situation of the SMEs support policy implementation every six months.

Duties of AED, which was reorganized from ASMED on April 10<sup>th</sup> in 2009 and its duties are not limited to SMEs management, are stipulated in MPI Minister Decision No.463/QD-BKH and in the MPI Minister Decision No.1908/QD-BKH as an amendment of Decision No.463. In addition, MPI Minister Decision No.219/QD-PTDN stipulated specific duties corresponding to the lists of specific divisions of the AED. According to it,

the jurisdictions of the AED are as follows. Namely, a) In the SME Development Division, implementation of SMEs promotion measures for technical guidance through the TAC, b) in the SOE Reform Division, taking initiative in the state-owned enterprise reform, c) in General Issues & Policy Division, adjustment of the overall business development of the private sector, d) in investment & Corporate governance division, window function for the investment and strengthening governance, e) International cooperation related activity in International cooperation division, f) in business Information Support Center, management and publishing corporate information.

### **3) TAC: The Assistance Center**

TAC has been established in the three focal regions, on the basis of the Government Decree No.90/2001/ND-CP and the offices are located in such three municipalities as Hanoi, Da Nang, and Ho Chi Minh City. Duties, authority and organizational structure of TACs have been stipulated in the MPI Minister Decision No.1551/2009/QD-BKH for TAC Hanoi, Decision No. 1536/2009/QD-BKH for TAC Ho Chi Minh.

TAC is responsible for organizing the implementation of policies and support programs for SMEs,. The main policy implementation areas of the TAC are as follows. Namely, a) technical advice to SMEs, b) organising training causes to enhance the business administration capability of SMEs, c) building the technology partnerships among SMEs, large enterprises, and universities, d) sharing and publishing the enterprise information, e) establishing technology database, f) enhancement of new technology research and development.

### **4) FIA: Foreign Investment Agency**

FIA is a subordinate agency of the MPI, and one of its major function is investment promotion in the nationwide Vietnam. The initial duties of FIA are drafting strategies, master plans, plans/programs and list of projects/fields calling for foreign direct investment. FIA is now developing such activities as supporting industry development policy, on the basis of the Vietnamese Government policy for promotion of foreign direct investment which is attractive to local supporting industries.

Also, FIA has jurisdiction over the following policy. Namely, improvement of investment environment for domestic enterprises, formulation of legislative measures which are necessary for the various

measures for the foreign direct investment promotion, monitoring policy implementation, coordination among other ministries and agencies, management of the statistical information regarding enterprise investment, management of local SMEs database<sup>3</sup>, and drafting the national investment promotion program.

#### **5) IPC: Investment Promotion Center**

IPC, which is a subordinate agency of FIA, has jurisdiction over the investment promotion business for each of the provinces. IPC branches are located in northern, central, and southern region. These are namely, IPCN (jurisdiction over the Hanoi suburbs), IPCC (jurisdiction over the Da Nang City suburbs), and IPCS (jurisdiction over the Ho Chi Minh City suburbs).

IPC has been building the investment project list at domestic area as well as abroad in cooperation with the relevant Ministries. In addition, IPC has been offering abundant services to the locally based enterprises as well as Vietnamese public agencies which are in charge of SMEs support policy planning and implementation. Particular ones are review and evaluation of the enterprise investment plan, investment advice, holding workshops for the exchange of views among investors, formulation of the national investment promotion program, monitoring of the program implementation, Vietnamese market research, investment research, policy consulting, business strategy consulting, and support for documentation of the project planning. Besides, all provinces have established their own provincial IPC to promote and attract both, foreign and domestic investment.

#### **6) SMEs support agencies in within a jurisdiction of local authority**

In each of the provinces and municipalities, SME support center is in operation under the jurisdiction of the Department of Planning and Investment (DPI). The name, function and duties of the center are different by each of the provinces and cities, which have been determined under the discretion of each local authority. For instance, the function and duties of the SMEs support center in Hanoi are stipulated by the Ha Noi City presidential Decision No.54/2005/QD-UBND. The major duties are as follows. Particularly, a) enterprise start-up support (support for the investment license application procedures, support for laws and regulations interpretation, guidance of the tax system), b) utilization support of intellectual property rights (trademarks, patents, utility models,

protection guidance), c) government policy guidance, d) market research support, e) enterprises' capacity development support (training, workshops,

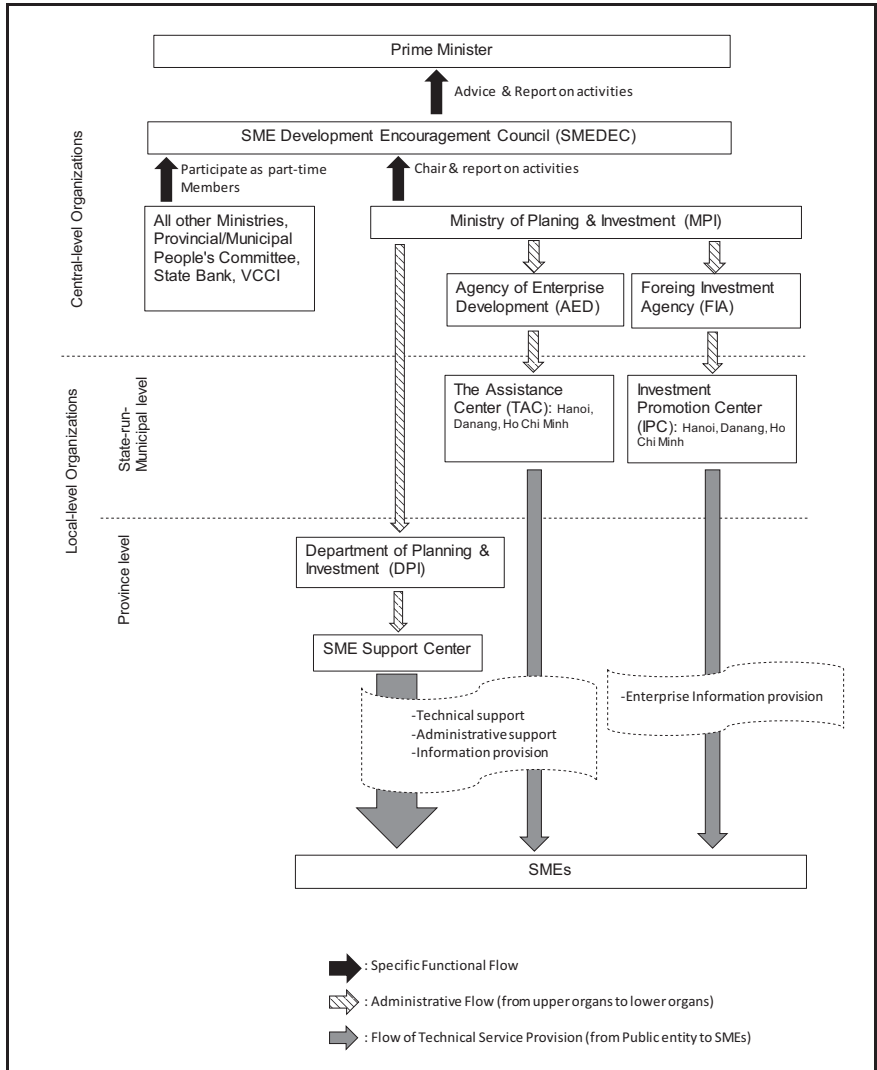


Figure-3 Agencies in charge in a MPI series



seminars), f) support for holding exhibition and/or fair of the enterprise products, and g) advertising support.

As for another case, the function and duties of the SMEs support center of Dong Nai province are stipulated by the provincial Decree No.124 /2011/QD-UBND. The major duties include a) the entrepreneurial support (start-up advice regarding relevant laws and procedure of raise of the capital), b) business management advice (procedure for dealing with the bankruptcy, settlement, and business registration), c) relevant information provision (market information, the provincial government information in accordance with the business strategy), and d) support for building up partnerships among enterprises, provincial authority and industry associations. These are general public information provision and advisory support on a variety of procedures as a whole, which may be necessary at the time of start-up and management of SMEs business implementation. However, the duties of SMEs support center of the provinces and municipalities are reflecting the regional characteristics. Therefore such regional characteristics is thought to be reflected in the name of “the SMEs Promotion Center”, which differs from each of the provinces and municipalities<sup>4)</sup>.

Above-mentioned structural relationship can be shown in the form of a tree diagram as follows:

## **(2) Agencies in charge and policy in a MOIT series**

The highest ranked laws and regulations for SMEs support policies in a MOIT series are Decree No.134/2004/ND-CP, and Decree No.45/2012/ND-CP, which is an amendment of Decree No.134. These laws and regulations are stipulating the policy related to the industrial development in rural areas. Firstly, the Agency for Regional Industry Development (ARID) is positioned as the highest ranked SMEs support agency in a MOIT series. At local level, apart from the ARID-managed Industrial Promotion Center Region 1 (IPC1), such a locally managed Industrial Promotion Center (local IPC) was established in each of the provinces and municipalities under the jurisdiction of DOIT.

Other institution that provides support to manufacturing SMEs is the Supporting Industry Enterprise Development Center (SIDEK), of which operation is managed by the Institute for Industry Policy and Strategy (IPSI) belonging to the MOIT. SIDEK has been supporting SMEs through enterprise database development and business matching support.

Finally, there exists the Vietnam Trade Promotion Agency (VieTrade) that assists SMEs in product marketing in overseas, and SMEs business matching support.

### **1) ARID: Agency for Regional Industry Development**

ARID was established on the basis of the Ministry of Industry (the predecessor of the current MOIT) Minister Decision No.115/2003/QD-BCN. Duties and functions of ARID are stipulated in the following laws and regulations. Particularly, Decree No.134/2004/ND-CP, amendment Decree No.45/2012/ND-CP, MOIT Minister Decision No.799/QD-BCT, and MOIT Minister Decision No.999/QD-BCT as an amendment of Decree No.799.

The above-mentioned laws and regulations are stipulating ARID to perform the following duties. Namely, drafting policy documents and laws and regulations relevant to the SMEs support policy in rural areas, assistance for MOIT Minister, development of planning and support mechanisms, monitoring and evaluation of local SMEs support policy, information provision, support for holding SMEs product exhibition/fair, and adjustment among relevant ministries and agencies for local industrial promotion policy execution.

### **2) IPC1: Industrial Promotion Center Region 1**

IPC1 is an industry promotion advisory center in rural areas, which covers the northern region and three provinces in the North Central Coast including Thanh Hoa, Nghe An and Ha Tinh., IPC1 was established on the basis of MOIT Minister Decision No.6368/QD-BCT. According to the decision No.6368, the duties of IPC1 are as follows. Namely, SMEs human resource development, monitoring and evaluation of SMEs industrial development policy in the northern region, providing such information as the relevant laws, regulations, technology and market, advice for business operations and way of securing quality, and offering the business incubation services such as lending equipment and office space for SMEs which are scheduled to be entrepreneurs.

### **3) local IPC: Industrial Promotion Center in each of the provinces and municipalities**

Major duties of the provincial IPC are similar to IPC1. Their main contents include advice on various procedures at the time of entrepreneurship and business management, human resource

development, and relevant information provision. However, depending on the situation peculiar to the province and municipality, some additional

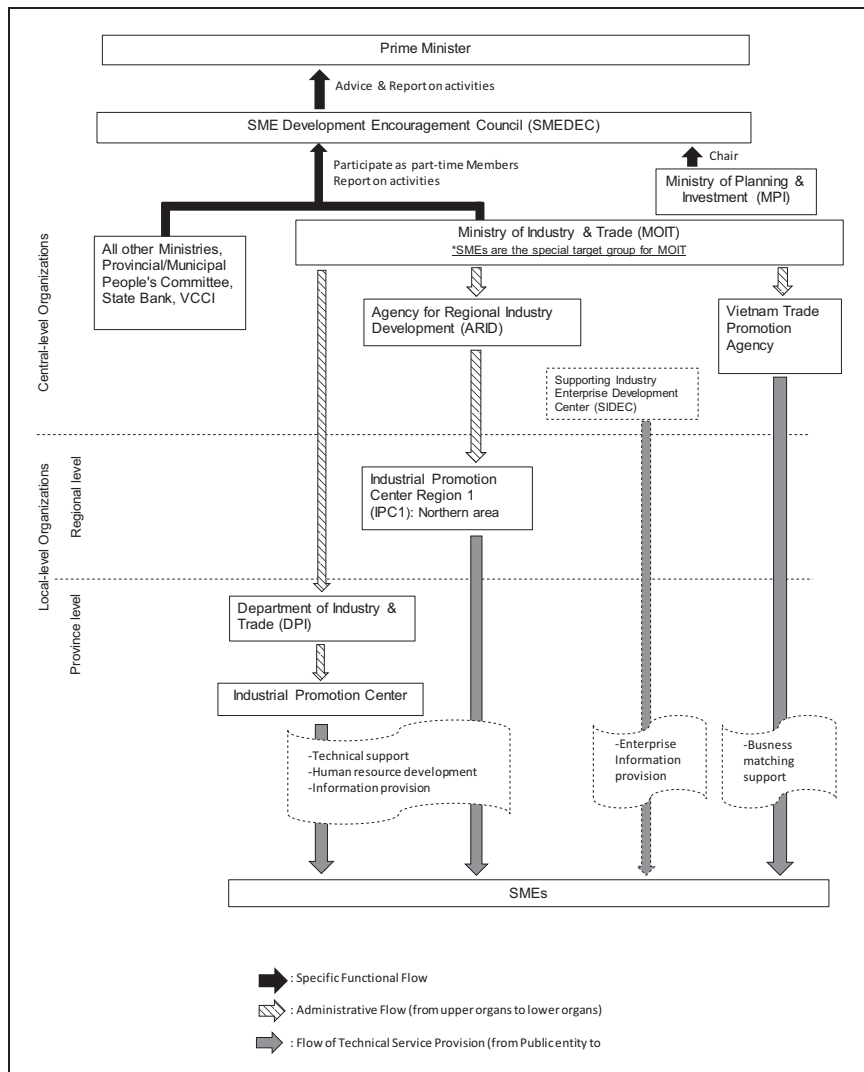


Figure-4 Agencies in charge in a MOIT series

functions and duties can be observed, which are thought to be reflected the regional characteristics. It seems that such regional characteristics are also reflected in the name of “the Industrial Promotion Center” in each of the provinces and municipalities<sup>5)</sup>.

#### **4) SIDEC: Supporting Industry Enterprise Development Center**

SIDEC was established in 2009 by IPSI which is a policy-making research institutes belonging to MOIT. Activities of SIDEC are as follows. Particularly, Vietnam’s SMEs support, drafting policy documents regarding SMEs industrial development support, development of the SMEs databases, SMEs information provision, SMEs training, and business matching support.

#### **5) VieTrade: Vietnam Trade Promotion Agency**

VieTrade was established on the basis of the Prime Minister Decision No.78/2000/QD-TTg. Its functions and duties are stipulated in the MOIT Minister Regulation N.963/2013/QD-BCT, which is the latest regulation. Vietrade is an agency specialized in the trade promotion mainly in the overseas markets, and its duties contain holding commercial events in cooperation with other government agencies and the private sector, mediation of holding overseas products exhibitions/fairs as well as domestic exhibitions/fairs, SMEs development support. Besides, Vietrade also offers investment consulting advisory services.

Above-mentioned structural relationship can be shown in the form of a tree diagram as follows:

## **2. Agencies in charge and relevant policy for SMEs financial support**

There exist the following 3 types of agencies as SMEs corporate finance support institutions in Vietnam. That is, the MPI-led SME Development Fund (SMEDF), Vietnam Development Bank (VDB) and the Credit Guarantee Fund (CGF) in local level.

### **1) SMEDF: SME Development Fund**

SMEDF was founded by the Prime Minister Decision No.601/QD-TTg, which was based on the proposal of the Minister of MPI. SMEDF is composed of management board of which chairman is a Vice-Minister of MPI and five board members consisting of director of SMEDF and representatives of the following ministries and agencies such as Ministry of

Finance, the state bank, AED, and SME Association. SMEDF is a financial institution for SMEs. SMEDF makes loans to SMEs up to 70% of the total investment cost within a range that does not exceed 30 billion VND. Repayment period is seven years as the longest term<sup>6)</sup> and borrowing interest rate is determined by the Ministry of Finance for each project.

The requirements for SMEs at the time of borrowing is stipulated as follows: 1) presentation of a sufficiently viable business plan, 2) full acquaintance to the civil law and other relevant legal framework, 3) holding sufficient capital for project, which is made of 20% or more of the equity of the total capital, and 4) sufficient repayment capacity.

## **2) VDB: Vietnam Development Bank**

VDB was established in accordance with the Prime Minister Decision No.108/2006/QĐ-TTg, which was proposed by MOF Minister, and its functions and duties were stipulated by the Prime Minister Decision No.110/2006/QĐ-TTg. VDB was established in the form of reorganization of the DAF (Development Assistance Fund), and VDB took over 2,500 staffs and the 61 branches located in provinces and cities. VDB is a policy-based financial institution in charge of the development investments, which were are provided with a differentiated features with commercial banks. In addition, the Prime Minister Decision NO.14/2009/QĐ-TTg and Prime Minister Decision NO.03/2011/QĐ-TTg, which is the amendment of the Decision 14, are stipulating in detail the terms of the credit guarantee for SMEs, which is provided by VDB at the time of performing loans to SMEs from commercial banks. According to the Decision, targeted types of business of credit warranty SMEs include processing industry, manufacturing industry, gas or hot water or steam or air-conditioner related industries. Guarantee limit must not exceed 15% of the total capital of the VDB branch. In addition, the guarantee limit for a single borrower is capped at 85% of the total investment cost. Fees of the warranty SMEs is paid for VDB at 0.5% of the total amount including the guarantee amount and interest rate.

## **3) CGF: Credit Guarantee Fund**

CGF is a SME credit guarantee fund situated in each of the provinces and municipalities. CGF is basically a financially independent institution. CGF is functioned as guarantee the credit of SME which is difficult to borrow the fund from the commercial banks due to insufficient collateral,

and it aims at improvement of SMEs' accessibility to commercial banks. Installment of the CGF was stipulated in article 7 of the Decree No.90/2001/ND-CP. Also, CGF establishment was encouraged in the article 7, clause 1 of the Decree No.56/2009/ND-ND, which is the amendment of the Decree No. 90. Prime Minister Decision NO.193/2001/QD-TTg stipulated the CGF operational details, including the terms and conditions as shown in the following table.

Structure	<ul style="list-style-type: none"> <li>• Functioned as a financially independent organization. It shall have Management Council, Control Board and Executive Board.</li> <li>• All of the above-mentioned members are to be nominated or dismissed under the discretion of the representative of provincial or municipal people's committee.</li> </ul>
Targeted SMEs	<ul style="list-style-type: none"> <li>• All types of SMEs, Cooperatives, Individual or household business entities, farmers, fisheries and other household business entities.</li> </ul>
Assets requirement for Warranty SMEs	<ul style="list-style-type: none"> <li>• Assets equivalent to the mortgage of which value is more than 30% of the total borrowings.</li> </ul>
Guarantee contents	<ul style="list-style-type: none"> <li>• Guarantee is provided to a maximum of 85% equivalent to the amount of the difference between the borrowing amount and mortgage asset value of the SMEs.</li> <li>• However, guarantee amount shall not exceed 15% of the total assets of the Guarantee Agency.</li> </ul>
Charge	<ul style="list-style-type: none"> <li>• 50,000VND per one set of the application form, and 0.8% of the guarantee amount as an annual payment.</li> </ul>

Source: Prime Minister Decision No.193/2001/QD-TTg

### 3. Supporting industry enhancement policy in Vietnam

Prime Minister Decision No.12/2011/QD-TTG as the first law aiming at Vietnam supporting industry promotion has appeared to be entitled to the development policy of supporting industry on February 24<sup>th</sup> in 2011. In this legal document, definition of the supporting industry and types of industries being included in the supporting industries has been clearly stipulated for the first time. Namely, supporting industry is defined as "an industry that manufactures materials, spare parts, details, accessories and semi-finished products for supplying to industries that manufacture and

assemble finished products for use as production materials or consumer goods.” Supporting industries are defined as the following 6 industries, i.e., 1) manufacturing mechanical engineering, 2) electronics-informatics, 3) manufacture and assembly of automobiles, 4) textile and garment, 5) leather-footwear and 6) hi-tech industry.

In Prime Minister Decision No.1483/2011/QĐ-TTg, supporting industries subject areas and items were stipulated in detail, in Circular No.96/2011/TT-BTC, supporting industries preferential policies were stipulated, in the MOIT Official letter No.9734/BCT-CNNg, supporting industries preferential policies applicable application procedure and accreditation bodies have been designated. In this official letter, installation of the supporting industries development project assessment committee has been stipulated. Mission of this committee is to review and evaluate the supporting industries project to be developed on a priority basis, and to build-up a system to report to the Prime Minister. This committee is stipulated that MOIT Deputy Minister is served as a chairman, and representatives of relevant ministries and agencies (MPI, MOF, MOST, Ministry of Information and Communication (MIC), Ministry of Natural Resources and Environment (MONRE), Ministry of Justice (MOJ), VDB and so forth) are served as the committee members. In addition, Prime Minister Decision No.1556/QĐ-TTg ratified a series of laws and regulations that stipulated SMEs promotion policy in the past, and action plan was explicitly shown in ANNEX of the Decision. In recent years, in 2015, Decree No.111/2015/NĐ-CP has promulgated a supporting industry promotion policy again. However, Decree No.111 has become only a legal document repeatedly stipulating the preferential policies which are covered by the existing laws and regulations. Therefore, Decree No.111 does not have particular new measures and incentives in it.

### **III Realities and challenges of SME support policy and supporting industry policy in Vietnam,**

As discussed in the previous chapters, SMEs supporting policies and supporting industry policy of Vietnam have been implemented by a number of central ministries and local agencies. In here, the operational realities and issues of SMEs policy and supporting industry policy in Vietnam are discussed as follows.

### **(1) Inappropriate coordination of relevant agencies**

SME policy contents being implemented by multiple ministries and local agencies are technical assistance, financial assistance, training, information provision, SMEs business matching support and development of the SMEs data-base. These seem to be significantly similar measures and these have been carried out independently by the each department and each institution (Aoyama, 2013). In addition, even when the MPI series is solely observed, similar agencies such as TAC and the SME Support Center have been installed in duplicate in each of the municipalities as Hanoi, Da Nang City, and Ho Chi Minh City, and almost same services are provided. The same situations can be observed in Industrial promotion policy in MOIT series. Namely, the IPC1 located in the northern region and industry promotion center installed in each province in same northern region have to face with risks of providing overlapped services. Among those agencies and institutions, very little effort has been made for achievement of proper mutual adjustment. Therefore, the actual policy implementation has become inefficient in the light of funding and human resource allocation.

### **(2) Mismatch between SMEs technical needs and the actual services provision**

The contents of the services provided by MPI series and MOIT series contain advice on procedures for acquisition of the investment license, way of writing an application form, and disclosure of relevant legal document. Thus most of the services contents are biased to the advice on administrative procedures. It can be said that technical needs of SMEs are advanced production management skill and manufacturing technology for establishment of the business relationship with foreign-invested enterprises. These are technical know-how in line with the actual manufacturing site. However, in the current situation, technical services to meet such SMEs needs may not be provided sufficiently. The major reasons why those matters can be seen are the lack of both; (i) capable engineering staff to handle technical matters and (ii) sufficient facilities and equipment for the provision of proper technical services. In reality, local SMEs are incapable to participate in the supply chain of FDI enterprises, particularly MNCs in Vietnam, even those operating in the industries which are engaged in GVCs such as textile-garment, footwear and electronics.



### **(3) Low frequency of use of SME support center**

Local authority is operating SMEs support center and industrial promotion center in each of the provinces and municipalities, however, the SMEs' awareness of existence of those facilities may be very low. Therefore, the frequency of usage of the facility is also very low. One of the reasons for this can be said that public relations activities done by the management body of the facility as well as local government may be insufficient.

### **(4) Insufficient PDCA cycle of SMEs support activities**

For SMEs support activities, which are carried out by DPI and DOIT in the provinces and cities, any monitoring and evaluation for their achievements, issues and the points to be improved, as well as feedback activities of their results could not be observed. Under the absence of so-called as PDCA (Plan-Do-Check-Act) cycle, current situation could not properly be identified. Therefore, the mismatch between user needs and current services provision could not properly be detected. Governmental agencies, in most cases, prefer to put a great deal of time, human resources and funds into the documentation of the laws and regulations as well as planning for the SMEs promotion policy. This means that significant resources have been put into the stage of "P" of the PDCA cycle. However, "D" is extremely weak, and "C" is not almost done. Therefore, "A" could not be reached at all.

### **(5) Duplicated SMEs financial support policies**

Also in the SMEs financial support policies, plural financial facilities, such as SME development fund operated by MPI, credit guarantee service provided by VDB, and CGF operated by local agencies, have been provided in a duplicated manner. And their function sharing is not clearly defined, and it has not been efficient use of capital resources. In addition, awareness of SMEs for the presence of those facilities is low, and therefore the use of SMEs is insufficient.

### **(6) Some issues for reality of establishment of CGF and its operation**

Installation of CGF has been encouraged in the provinces and municipalities, in accordance with the Prime Minister Decision No.115, which is the amendment of the Prime Minister Decision No.193 in 2001. Up to today, it has already elapsed 12 years. However, the number of the

provinces and municipalities, which have set up CGF, remains only 10 out of the 63 provinces and municipalities in nation-wide Vietnam. One of reasons for this can be said to be very high asset condition hurdle for installation of the CGF, i.e., 30 billion VND (Hoang, 2012). Thus, currently, management of foundation of the CGF is extremely fragile. Therefore, it may be hard to hope the sound operation. In addition, any professional technical staff, which is capable of reviewing the user's eligibility, has not been properly placed. Therefore non-efficient review system with questionable validity for examination results has been laid.

#### **(7) Low frequency of actual use of CGF**

The number of CGF users has remained at a low level. As their factors, a) asset size of CGF agencies is small, therefore a sufficient guarantee amount is not be set for SMEs, b) financial institutions does not trust the assurance function of CGF, this means that CGF is not well accepted by financial institutions, 3) CGF is seeking a high level of mortgage conditions for SMEs. Therefore, it is almost impossible for SMEs to meet guarantee conditions. Therefore very few SMEs can enjoy the CGF services provision.

### **Conclusions**

The main measures to improve the quality support of SMEs may be the following two actions. That is, 1) improvement of creditworthiness for credit acquisition, and 2) technical capacity building assistance for product manufacturing. At present, it can be said that no sufficient support system corresponding to above-mentioned two policies have not been properly introduced in Vietnam. And inefficient operation, which includes arrangement of the plurality of duplicated institutions, has been made. Vietnam has been delayed behind more than 40 years comparing to Asian NIEs, China and other ASEAN advanced countries, which have embarked on a competitive international market by taking the export-oriented industrialization strategy (Tran van Tho, 2010), (Maeda, 2014). But, it is also true for Vietnam of being located in a position to be able to take full advantage of the profit of generic.

As for technical capabilities improvement support for Vietnamese SMEs, one of supporting tools, which can be provided by Japan, is a technical know-how of the Local Public Technology Center (LPTC), of

which Japanese terminology is “KOHSETSUSHI”. The history of Japanese LPTC can be traced back to the Meiji period, which is around early 1990s (Honda, 2008). LPTC is an R&D organization for SMEs. At present, more than 600 LPTCs are in operation in nationwide Japan. The main business menus of LPTC are as follows. Particularly, 1) Support the implementation of product testing, 2) Technical consultation and technical guidance, 3) Research and development support for the new technology, 4) Arrangement of joint research with companies and universities, 5) Human resource development assistance, 6) Technical information dissemination, 7) Support of coordination among industry, academia and local authority (Honda, 2008), (Fukukawa, 2007), (Nisio, 2008).

Technical support for planning and development of the public technology support center, of which concept is based on Japanese LPTC, has already been implemented by Japan Government in the form of technical cooperation project in Vietnam through 2006 till 2008 (JICA, 2008). However the project has been suspended up to today without proceeding to the phase 2, at which several sophisticated equipment were to be introduced.

Vietnam should continue to strengthen its political efforts to improve the creditworthiness and technical capabilities of SMEs, taking advantages of the international cooperation relations with neighboring countries as well as technical assistance through the ODA.

## Note

- 1) Doi Moi (Đổi Mới) is the Vietnamese word for reform. Doi Moi is an economic policy slogan that has been raised in the Vietnam Communist Party Sixth Party Congress in 1986. Where is the sense, liberalization of prices, including the international division of labor type of industrial structure reform, some at a conversion policy to the new market economy.
- 2) Decree No.56 is stipulating the definition of SMEs in terms of type of industry, number of employees and capital.
- 3) FIA has developed the 500 SMEs data base and opened it to the public on their own web-site in April 2015. The data base is written in English and FIA aims at using the data base as a tool for SMEs business matching.
- 4) “SMEs promotion center” can be expressed in Vietnamese as “Trung tâm hỗ trợ doanh nghiệp nhỏ và vừa”. Some provinces or municipalities adopt different name as “SMEs development support center”, which can be expressed in Vietnamese as “Trung tâm hỗ trợ phát triển doanh nghiệp nhỏ và vừa”, or “Investment promotion & enterprise support center”, which is called in Vietnamese as “Trung tâm xúc

tiền đầu tư và hỗ trợ doanh nghiệp”, or “Investment promotion & consulting center”, which is in Vietnamese as “Trung tâm tư vấn và xúc tiến đầu tư”. Their name is different depending on the local policy situation.

- 5) “Industrial promotion center” can be expressed in Vietnamese as “Trung tâm khuyến công”. However some provinces or municipalities say “Industry promotion & industry development consulting center”, which can be said in Vietnamese as “Trung tâm khuyến công và tư vấn phát triển công nghiệp”, or “Industry promotion & commercial promotion center” is “Trung tâm khuyến công và xúc tiến thương mại”.
- 6) In the case of special projects that require a long period of time, it can be set loan period of up to 10 years by a decision of the MPI Minister.

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