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FINAL REPORT

IMPACT OF GOVERNMENT POLICIES  
ON THE DEVELOPMENT OF PRIVATE SMALL AND  
MEDIUM SIZE ENTERPRISES (PSMEs)  
IN VIETNAM

*(Findings and Recommendations)*

Prepared for

EAST ASIAN DEVELOPMENT NETWORK

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## TABLE OF CONTENT

<b>I.</b>	<b>OVERVIEW OF SAMPLE AND SURVEY.....</b>	<b>3</b>
<b>II.</b>	<b>FINDING RESULTS .....</b>	<b>6</b>
2.1.	<i>Results of rating development criteria of SMEs .....</i>	<i>6</i>
2.2.	<i>Roles of development factors .....</i>	<i>8</i>
2.3.	<i>Evaluation of the concrete policies on SMEs' development .....</i>	<i>10</i>
2.3.1.	<i>Impacts of financial policies.....</i>	<i>10</i>
2.3.2.	<i>Impacts of Credit Policy .....</i>	<i>17</i>
2.3.3.	<i>Impacts of Customs and Trade Policies.....</i>	<i>20</i>
2.3.4.	<i>Impacts of policies related to SOE renovation.....</i>	<i>22</i>
2.3.5.	<i>Impacts of Other Policies .....</i>	<i>24</i>
2.3.6.	<i>Impacts of Enterprise Law.....</i>	<i>29</i>
2.4.	<i>Enterprises' response to Government policies.....</i>	<i>30</i>
2.5.	<i>General conclusion about the effects of government policies on the development of Vietnam's enterprises.....</i>	<i>34</i>
<b>III.</b>	<b>RECOMMENDATIONS TO IMPROVE POSITIVE EFFECTS OF POLICIES FOR SME DEVELOPMENT IN THE FUTURE.....</b>	<b>40</b>
3.1.	<i>Policies to encourage investment and fund raising.....</i>	<i>40</i>
3.2.	<i>Banking-credit Policies.....</i>	<i>40</i>
3.3.	<i>Tax policy .....</i>	<i>43</i>
3.4.	<i>Trade policy .....</i>	<i>44</i>

<b>3.5. Other related policies .....</b>	<b>45</b>
<b>3.6. Conditions to implement solutions .....</b>	<b>47</b>
<b>REFERENCES .....</b>	<b>51</b>
<b>APPENDIX A.....</b>	<b>54</b>
<b>APPENDIX B1.....</b>	<b>58</b>
<b>APPENDIX B2.....</b>	<b>60</b>
<b>APPENDIX B3.....</b>	<b>61</b>

### LIST OF TABLE

<i>Table 1.1</i> : Clarifying 105 SMEs interviewed .....	4
<i>Table 1.2</i> : Clarifying characteristics of interviewed government officers.....	5
<i>Table 2.1</i> : Changes of SMEs from 2000 – 2002 .....	6
<i>Table 2.2</i> : Capitals of development and investment in the period of 1991 – 2000 (%) .....	15

### LIST OF CHART

<i>Chart 2.1</i> . Results of responses.....	6
<i>Chart 2.2</i> : Role of development factors .....	9
<i>Chart 2.3</i> : Role of government policies on development of different industries .....	10
<i>Chart 2.4</i> : Evaluation of the taxation policy's impacts .....	13
<i>Chart 2.5</i> : Evaluation of the public finance policy's impacts .....	14
<i>Chart 2.6</i> : Evaluation of investment promotion policy's effects.....	16
<i>Chart 2.7</i> : Evaluation of credit policy' impacts .....	18
<i>Chart 2.8</i> : Evaluation of custom and trade policy' impacts.....	22
<i>Chart 2.9</i> : Evaluation of impacts policies related to SOEs renovation .....	23
<i>Chart 2.10</i> : Technology policy's impacts .....	25
<i>Chart 2.11</i> : Evaluation of training policy' impacts .....	26
<i>Chart 2.12</i> : Evaluation of land policy' impacts.....	28
<i>Chart 2.13</i> : Evaluation of enterprise law' impacts .....	30
<i>Chart 2.14</i> : Respond to government policies by enterprises .....	32
<i>Chart 2.15</i> : Impacts of some key policies .....	34

## **I. OVERVIEW OF SAMPLE AND SURVEY**

Nowadays, Vietnamese SMEs have been developed in increasing number of companies, in changing structure of industries and in expanding business opportunities. There are so many factors that have impacted on SME development, the most important factor is the improvement of government policy system.

This research can not use factor analysis model in qualifying impact of each government policy due to inconsistently statistical figures in Vietnam. Instead, interview and survey were conducted in order to get points of view from both government officers and SME managers about impact of government policies on SME development in past years.

Questions for interview were designed and used for both groups of interviewees (See annex 1 for detail). The content of questions focus on evaluating the level of impact of government policies on SME development. Interviewees had rated these levels by grades from 1 to 7, with 1 representing the lowest level and 7 representing the highest level of government policy impact. Question 1 was used for confirmation of government officers and SMEs on 10 SME development criteria including quantity criteria such as increasing number of SMEs, growing proportion of SMEs contributing to GDP,... and quality criteria such as expanding business opportunities and equity for private SMEs. After rating SME development criteria, interviewees had been questioned about the role of development factors including capital, labour, land and government policies. Objective of this question is comparing the role of government policies to other development factors of SME development before evaluating the role of each government policy in following questions. Question 3 asked for rating the role of each government policy in SME development based on each development criterion. Main rated government policies are tax policy, credit policy, trading policy, SOE policies, land policy, technology policy and education policy. The last question is used to verify reactions of SMEs to government policies by different ways such as dialogue with government officers, contribution of their ideas in improving effectiveness of government policies. Each company provided its own responding way to policies and government officers also presented their points of view about responds of SME to government policies during their issuing or implementation. Collected results from surveys are

processed by SPSS program and represented in figures and tables in order to compare points of view from government officers and ideas of SMEs' managers.

Sample for interviewing includes 105 SME's managers who are selected randomly from Hanoi, Ho Chi Minh city (HCM city) and other nearby provinces. General information of these companies is represented in Table 1.1 as follows:

	Number of companies	%		Number of companies	%
<b><i>Sex of owners/directors</i></b>			<b><i>Foreign capital contribution</i></b>		
Man	85	80.9	Yes	12	11.4
Women	20	19.0	NO	93	88.6
<b><i>Education level of the directors/owners</i></b>			<b><i>Location</i></b>		
University	81	77.1	HCMC	36	34.3
Master	11	10.5	Danang	15	14.3
Ph.D	3	2.9	Hanoi	38	36.2
Others	7	6.7	Others	16	15.2
<b><i>Industries</i></b>			<b><i>Type of companies</i></b>		
Manufacturing	39	37.1	Sole-Private	15	14.3
Services	12	11.4	Limited company	57	54.3
Trading	18	17.1	Joint-stock Co.	9	8.6
Agriculture	8	7.6	Mix	1	1.0
Construction	5	4.8	Others	24	21.9
Others	23	21.9			

*Source: Research results*

**Table 1.1 : Clarifying 105 SMEs interviewed**

According to clarifying table above, surveyed SMEs have a certain knowledge on economics and management. Most of them have at least 5 years of working experience in different managerial levels. Their age ranges from 28 years old to 50 years old. During over 6

months (from September, 2002 to April, 2003), research group visited total of 105 private SMEs including 36 enterprises in HCM city, 38 enterprises in Ha Noi, 15 enterprises in Da Nang and other 16 enterprises in Hai Phong, Bac Ninh. These 105 enterprises are involving in different types of ownership including 15 private enterprises, 57 limited companies, 9 join-stock companies and 17 other types of private companies. This reflects real situation of Vietnamese SMEs that they exist mostly in the form of limited companies. Among 105 interviewed enterprises, there are only 12 companies (accounted for 11.4%) that received foreign capital.

Besides 105 enterprises, research group visited and interviewed 42 government officers related to SME's operations. Among these 42 government officers, there are 20 officers work at central level and 19 officers work at local level. There are only 3 officers work for Government research departments. Table 1.2 presents characteristics of these 42 government officers.

	Number of officers	%		Number of officers	%
<b><i>Sex</i></b>			<b><i>Jobs</i></b>		
Man	28	66.7	Managers	10	23.8
Woman	14	23.3	Administrative officers	3	7.1
<b><i>Education</i></b>			<b><i>Organizers</i></b>	3	7.1
Undergraduate	25	59.5	Researchers	4	9.5
Master	10	23.8	Others	22	52.4
Ph.D	7	16.7	<b><i>Experiences</i></b>		
<b><i>Working place</i></b>			2-5 years	8	19.0
Local level	19	45.2	5-10 years	8	19.0
Central level	23	54.8	Over 10 years	26	62.0

*Source : Survey's results*

**Table 1.2 : Clarifying characteristics of interviewed government officers**

## II. FINDING RESULTS

### 2.1. Results of rating development criteria of SMEs

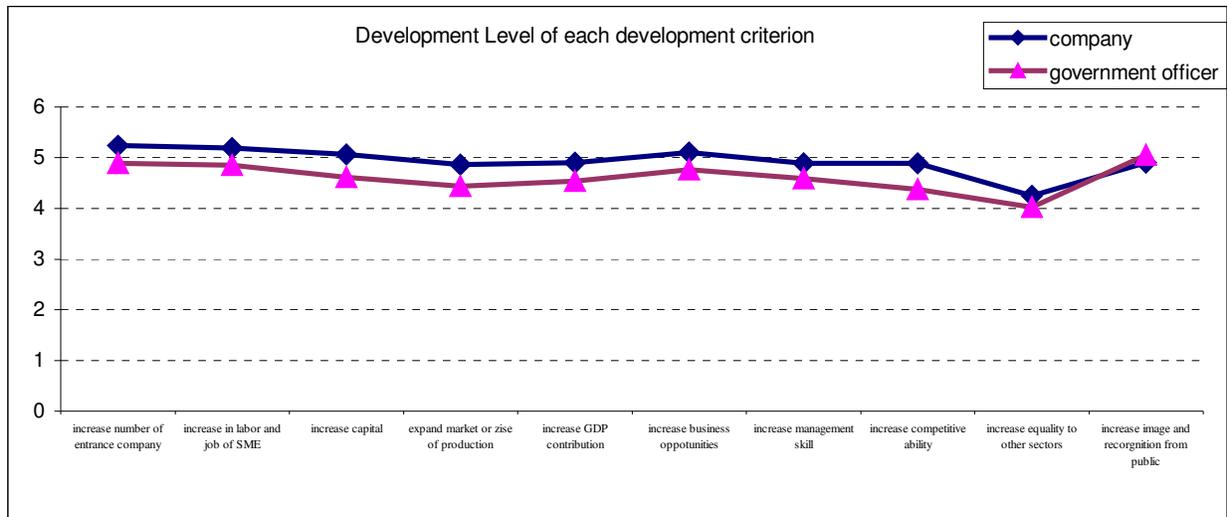
According to statistical figure, number of private SME has been increased gradually over past years, especially after implementing Enterprise Law in January 1st, 2001. We can see the change in quantity of SME in Table 2.1 below.

		Unit	Year 2000	2001	2002
1	Number of new registered enterprises	Company	14,417	21,040	21,535
2	Total new invested capital	USD	1.33	2.33	3.0
3	Proportion of invested capital				
	<i>Capital from Private SMEs</i>	%	19.5	23.5	28.8
	<i>Capital from SOE</i>	%	18.25	19.3	17.8

Sources : Report on 3 years of implementing New Enterprise Law of MPI

**Table 2.1: Changes of SMEs from 2000 – 2002**

In order to confirm with SMEs and government officers about SME development, research group asked interviewees about 10 development criteria. The chart 2.1 shows the results of responses is below :



Source : Survey's results

**Chart 2.1. Results of responses**

Although evaluated levels on each development criterion by SMEs managers and government officers are not the same but both of them strongly confirmed that Vietnamese SMEs have been developed quantitatively and qualitatively. SME managers have strongly confirmed about expanding the business opportunities for SMEs. Government officers totally agree that the public image and public recognition of SMEs have got much better than previously. Reputation of SMEs are increasing under the eyes of citizens and government officers. Both groups of interviewees agreed that the number of SMEs is increasing, capital and labour of SMEs is rising, SMEs' proportion in GDP is growing year by year. Vietnam Government and citizens have changed their image about private sector and its role in economic development. In other words, SMEs play more and more important role in economic development in Vietnam. Business and investment environment for private SMEs is improving. When rated 5.1 point for this criteria, SME's managers highly appreciated government's efforts in improving business environment, especially in improving policy system. Both SMEs and government officers rate high score for improving business environment criterion, which means that there are many more business opportunities for Vietnamese SMEs. Obtaining what kind of business opportunity depends on private company's abilities and supports from Government for them in each period.

When asking for rating equity of private sector, both government officers and SMEs have agreed that although there are a lot of improvement, this issue is still not as good as SME's expectation. Grade for this criteria is very low. Private companies still have more difficulties than SOEs in obtaining loan from banks or capital from government's development supporting funds. Increasing equality level of private companies in comparison to SOEs is still limited in past years.

In terms of competition criterion, both government officers and SME's managers agreed that competitive ability and management ability of SMEs are increased in the past few years, however they still not yet meet the requirement of economic development. In order to improve competitive ability, companies need to do business professionally. Government could improve business environment towards more equality, more convenience, but not competing against companies. When rating competitive criterion, enterprises gave higher grade than government officers did.

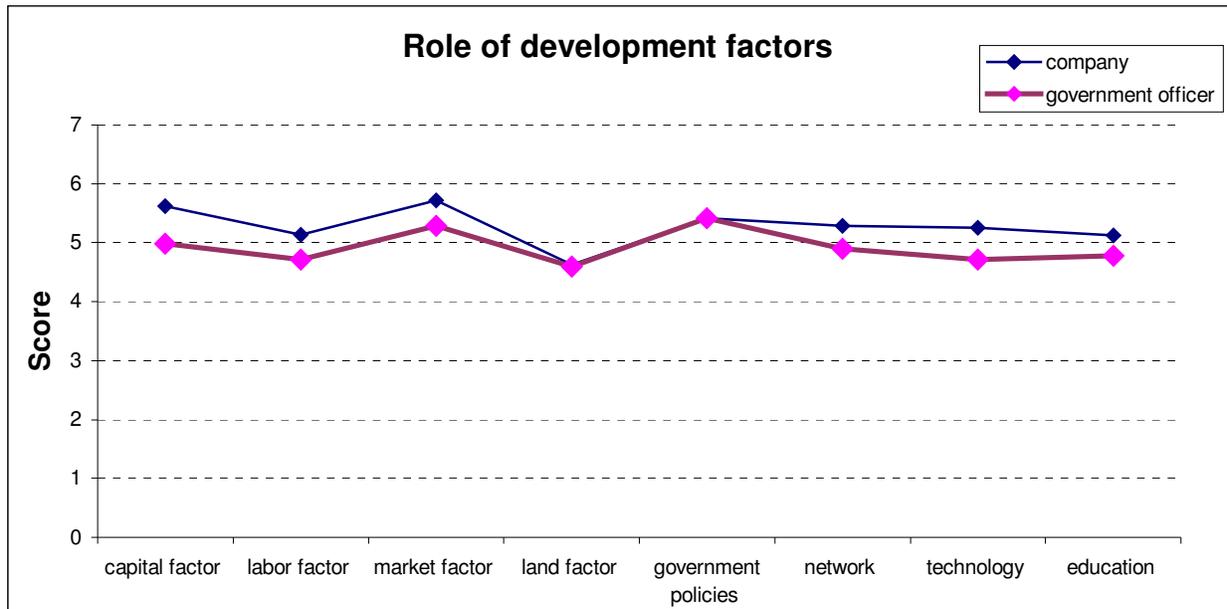
In terms of industrial aspect, different industries have different levels of development. Government policies in promoting growth of industries are applied and implemented variously. Business environment is not the same for all industries. Construction and services industries (especially high-tech service industry) have been promoted in the past few years. Trading is the industry where most of constraints exist such as quota of exporting and importing products. Based on rating results of SMEs' managers, growth rate of trading companies has been increasing very fast during the past few years, but business environment for them is very poor. Government policies are recently creating good environment for high-tech industry and construction as well. There are a lot of construction companies and high-tech service companies set up from year 2000 till now. A large number of jobs were created when construction companies are operating. However, capital in construction companies has not been increased during this period.

## ***2.2. Roles of development factors***

There are a lot of different factors that impact on development of SMEs such as labor, capital, government policies and so on. Among them, government policy is considered as one of the most important factors. In transitional countries, legal system is improving and policies can be changed overtime. According to surveyed results, both government officers and SME's managers gave score of 4.5 over 7 for this factor. This is totally agreed by both groups when considering development factors of SMEs in Vietnam. However, when government officers considered government policy as the most important factor, SMEs managers confirmed it only as the third important factor after land and capital. This result shows that recently SMEs have to face with difficulties in resolving land and capital issues. Most of SMEs called capital from informal resources and can not find land for expanding production.

Chart 2.2 below clarify different ideas from government officers and SME's managers on roles of factors in SME development in Vietnam last few years. According to SMEs' managers' point of view, following land, capital and government policy, business network also plays very important role. This is appropriate with Vietnamese culture where everyone agrees that "Business is the relationship". Business network here is not only the relationship between SMEs with SOEs and big companies or government officers, but it is also the relationship among

SMEs . However, government officers think that business network is the third important role in all development factors. Different views between government officers and SMEs' managers are the main reason that explains why government policies can not meet SMEs' expectations in this period.



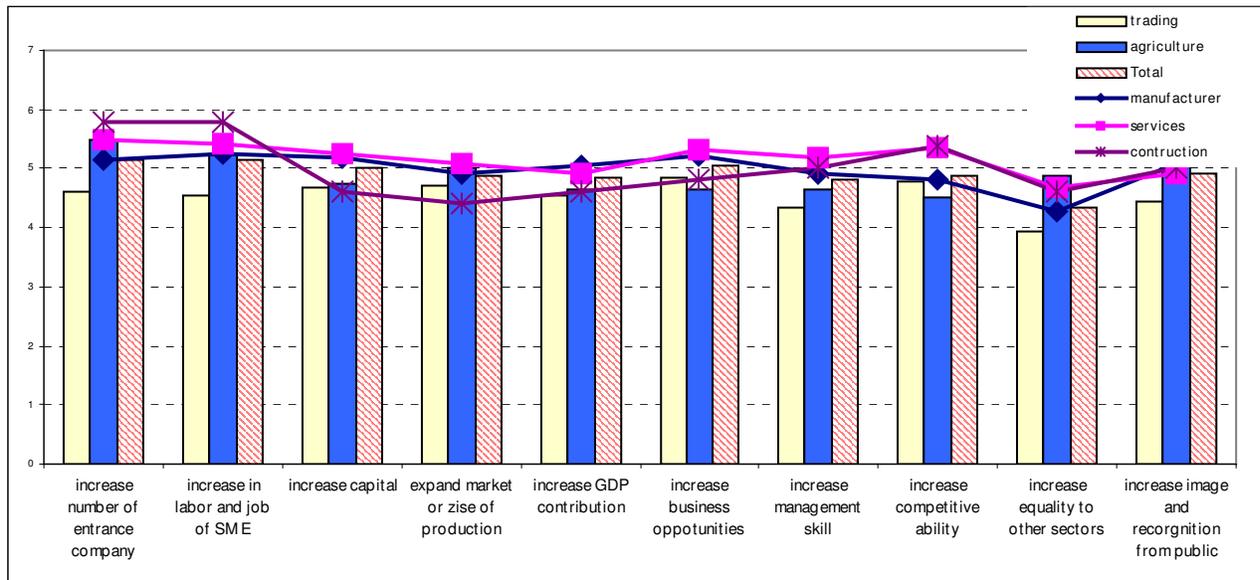
Source: Survey results

**Chart 2.2: Role of development factors**

When government officers rate average score for others factors like technology, education and labour, we can understand that government policies still lack of priority for important development factors. In fact, role of development factors are different in different periods. This requires the Government to pay attention and give priority to different factors depending on their roles in different periods of development.

Roles of development factors are not the same for different industries. For example, land is the most important factor for manufacturing companies when they need to expand production. In contrast, relationship is the most important factor for commerce industry, high technology is the most important factor in IT industry and so on. In the past few years, government policy became a very important factor of development in manufacturing industry and then, in construction industry. However, government policy is not much improved for commercial and

agricultural industries. The survey's results about the role of government policies on development of different industries are summarized in the chart 2.3 below:



Source: Survey results

**Chart 2.3: Role of government policies on development of different industries**

### 2.3. Evaluation of the concrete policies on SMEs' development

#### 2.3.1. Impacts of financial policies

When mention financial policies, it is usually listed a number of policies including tax policy, public finance policy, local and foreign investment encouragement policy, aiming at mobilizing capital for the development of national economy in general and of enterprises in particular. This research analyses the impact of each policy on the SMEs' development.

\* **Taxation policy:** This tool with its function is to make the macro and important regulations by the Government on market economy. In the past years, with transition of the economy, the Government has continuously improved the taxation policy corresponding with economic development in each period. The content of new taxation policy is as follows : making transition from the State owned tax collection system to the united one for all economic sectors. Thus, it makes taxation as a virtual regulation tool that impacts all economic entities in the market. In such circumstances, the State has promulgated a number of tax laws. They are turnover tax law, income tax law, and luxury tax law that have become into effect since the date

of being promulgated by the State Council in August 8th 1990. In addition, the import – export tax law was approved in December 29th 1987, the tax law of using agricultural soil was ratified in July 1993. Until now, the State has been in the process of modifying some unreasonable of tax law for more effective application. The National Assembly, recently, has also approved the value – added tax law and corporation income tax law as well. Since the date of being applied, the value – added tax has been adjusted and improved several times. Furthermore, the business rates and corporation income tax have been gradually adjusted for being equal among economic sectors. There exists some policies of tax reduction approved by the Government with the aim of encouraging investment, for example the local investment encouragement law, the foreign investment law and co-operative law. Additionally, there are a number of favorable tax policies to encourage SMEs' development. The current tax policy, however, has still been inadequate, concretely as follow:

- Unclear regulations of tax collection. In fact, the collectors apply different tax rates on the same objectives. For this reason, there exists some slits for tax evasion by some SMEs. According to Ministry of Finance's evaluation, there is a serious situation of tax evasion from the private enterprises. By contrast, private enterprises raise their opinions that they hardly survive if they strictly observe the tax payment.

- Unreasonable regulations of tax collection and payment. It pays greatly attention to the tax collection, and there's no encouragement of developing the resources of incomings. Tax policies have been modified several times, however, there still exists the tax rate at a high level and a number of receipts out of tax. In other words, tax policy has not really presented the payers' interest. The tax policy has great concern with the payers' obligation and does not encourage enterprises' self-awareness to increase the income of the State's budget. The application of regulations is also irrational. For example, some tax collectors are delivered the fixed rates for a given period, thus they make casual application of tax collection to enterprises in their authorized areas to reach their target and assigned task.

- Business obstacles for enterprises. For example, the three-month-period tax payment of exported materials. In fact, there are a number of exported materials for production in the period of 6 months or 1 year. The three-month-period tax payment is a burden to

enterprises in the process of making loans. Additionally, there is still a high business rate for very small or very large business scale enterprises. Furthermore, every enterprise has its specific characteristics, thus the application of the same business rate to the different kinds of enterprises is unfair.

- Complicated regulations of tax interests. The procedures and time of refunding VAT are not appropriate to every enterprise and are obstacles to various SMEs due to the different kinds of enterprises.

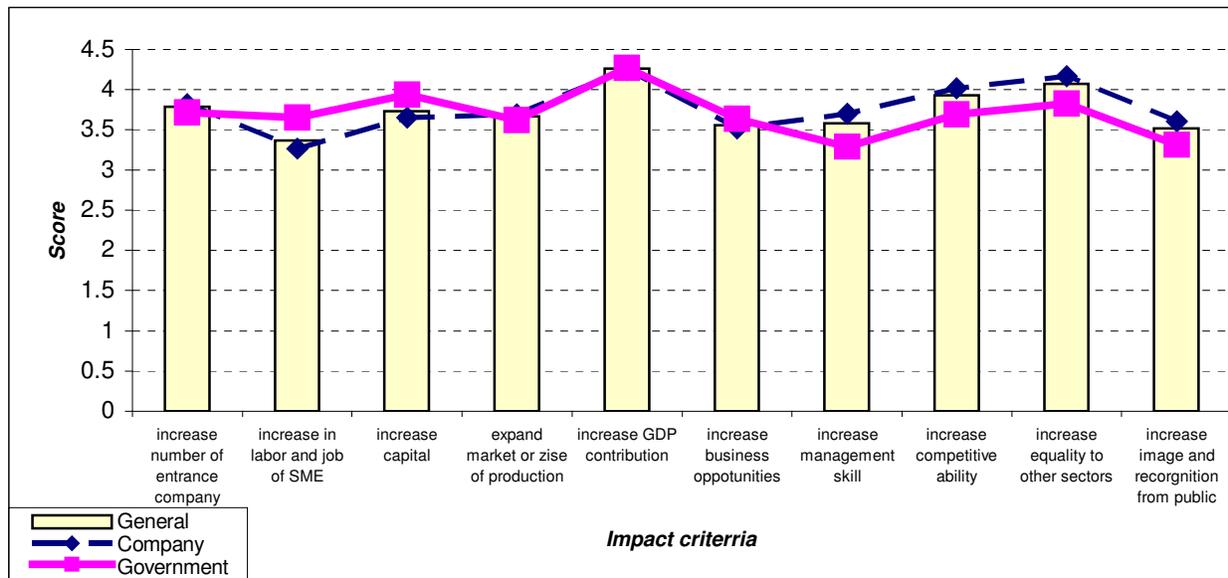
- Unfair tax obligation among firms and different economic sectors. The business rate is still at the high level of 30 – 50% in general (now reduce at the rate of 25 – 28%), and the rate of 15 – 20% for the foreign capital firms in particular. The favorable tax policies usually pay attention to attracting foreign investment than encouraging the local investment. There appears a homogeneity in the application of tax regulations and inequality among economic sectors that create a gap for enterprises to commit tax evasion.

- Although being adjusted, the tax law is still complicated. The application of tax law is not strict and unfair. Therefore, a number of firms make false statements of their business activities. For this reason, it is difficult for tax agencies to control. Besides, due to a complex procedure of tax-free and tax reduction, firms still have a tendency to commit tax evasion.

For the purpose of regulating the business activities among economic sectors and increasing sources of income for the State, the impacts of tax policies on SMEs' development are to increase SMEs' contribution to GDP and to create equality among firms. However, there appears a little unanimity in making evaluation of tax policies' impacts.

Chart 2.4 shows the evaluation of different tax policies. Government officers and firms both say that the increase in equality among economic sectors and the increase in the contribution proportion to GDP play the most important roles in tax policy. In addition, the tax policy also creates more competitiveness among SMEs. Both groups agree on the different roles of tax. The State officers see a very small role of tax in improving the managerial competency of SMEs with the score of 3,29. Whereas, the least role of tax in increasing the capital of SMEs is

seen by the firms. From this point of view, enterprises say that due to high rate of tax, it is more difficult for SMEs to increase capital to expand the scale of manufacture.



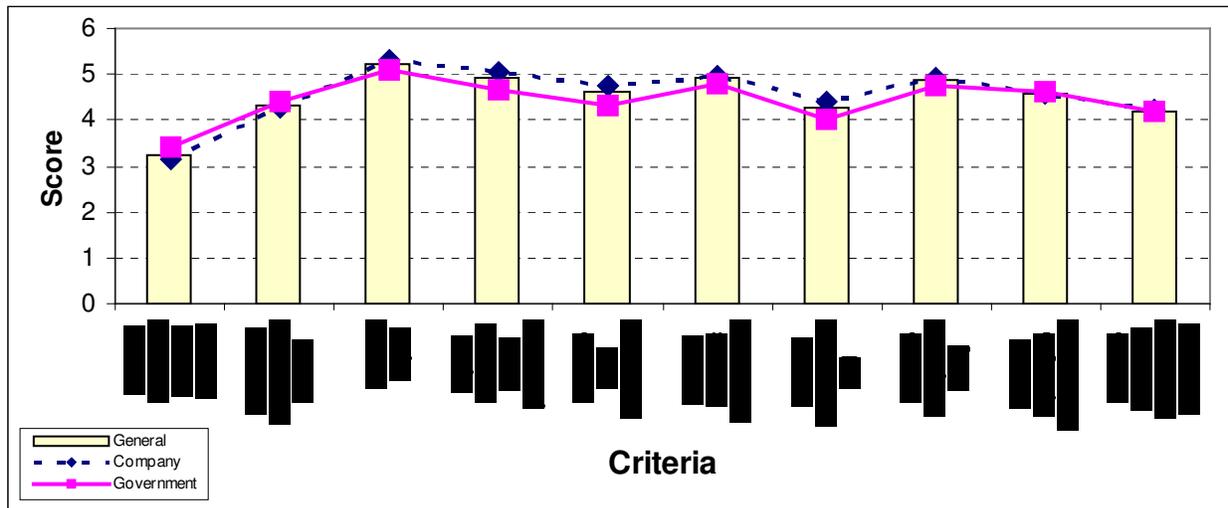
Source: Survey's Results

**Chart 2.4: Evaluation of the taxation policy's impacts**

\* **The public finance policy** A part from the taxation policy, the public finance policy is also one of the very crucial policies that have great influences on SMEs' development. It is considered as a tool of regulating inequality among economic sectors. By means of investing in the public projects such as infrastructure, roads, electricity, telecom, etc, ... , firms have a chance of cost reduction and more favorable business. Enterprises and government officers see the most important role of the public finance policy (score of 3,6 by the firms and 3,53 by government officers). Thanks to the public spending policy, the sources of income from tax are aimed at upgrading infrastructure, creating favorable conditions for all firms, including SMEs and big enterprises. In comparison with the taxation policy, however, the effects of public spending policy in Vietnam in the past few years is not highly evaluated.

In general, enterprise and government officers give the same marks to the different roles of the public financial policies. The Chart 2.5 illustrates that the public finance policy has a small influence on increasing the labor force, expanding market and increasing the capital of SMEs. Due to the impression of taxation policy on enterprises' responsibilities, the public finance policy does not present its role in increasing prestige. The score for this role is less evaluated by the

enterprises.



Source: Survey's results

**Chart 2.5: Evaluation of the public finance policy's impacts**

One of the most effective investment field by the public finance policy is to improve the administrative management mechanism, and to improve the public services. However, it has not been much improved in the past years. There still exists government officers with authoritarian behavior in the process of providing services. For this reason, SMEs often hesitate to deal with them. In the coming years, there is a need to improve the system of public service supply, and create more favorable administrative environment for SMEs.

#### **\* Policy of local and foreign investment promotion**

The Vietnam's investment policies have been continuously changed over time. In the past, investment mainly depended on the national budget and foreign aid. Recently, private investment and foreign investment in various forms have been paid a great attention. The Foreign Investment Law promulgated by the National Assembly in 1987 and the Domestic Investment Promotion Law came into effect have created a good legal environment for both local and foreign investors. Under the impacts of these policies, the investment structure has been changing greatly.

The Domestic Investment Promotion Law promulgated in 1995 and adjusted in 1998 is a

factor of promoting internal saving and investment. According to the figures from the Central Institute for Economic and Management, until 1996, all levels of government issued 313 favorable investment licenses, including 93 for non-state owned enterprises (equals to 29,7 percent). The private local investment was stable, whereas, foreign investment has increased. For this reason, the total of non-state owned investment reached 21% of the GDP in 1995. In comparison with other countries in the region, Vietnam's saving and investment levels are still low. The local investment encouragement policy, accompanied with many forms of attracting foreign investment have been applied. The Foreign Investment Law was promulgated in 1987 and adjusted in 1991, 1992, 1994 and 2000. The foreign investment capital is accounted for around 20 – 30 % of the total capital. These local and foreign investment promotion policies significantly impact on the development of SMEs.

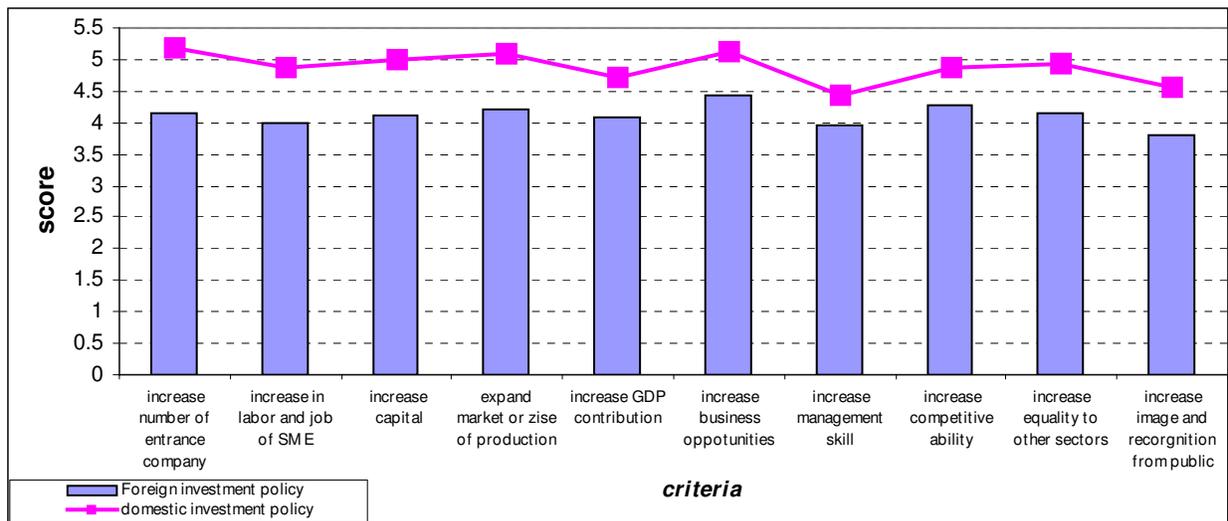
According to the data from the Ministry of Finance, a large number of capital (88,4%) is from state enterprises. In fact, many state enterprises with low business competency make non-effective use of human resource and make a lack of capital for the non-state owned enterprises. ODA is highly concentrated in state enterprises. More than 80% of joint capital between Vietnam and foreign partners belong to state enterprises and a very small proportion is located in the private sector. According to the reports by Ministry of Finance, in the past 10 years, the total budget of society is VND 632.000 billion, and the capital of VND 400.000 billion in the five-year period of 1996 - 2000, increases by 1,72 times compared to the period of 1991 – 1995, with average annual increase of 6,6% (Table 2.2)

	<b>91- 95</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>96- 2000</b>	<b>91- 2000</b>
Total	100	100	100	100	100	100	100	100
Capital from state budget	23,59	20,78	21,26	21,47	25,03	20,89	21,87	22,50
Capital from government credit	6,14	10,46	13,11	15,35	18,29	19,92	15,57	12,10
Capital from SOE sector	10,89	13,98	13,73	16,7	18,29	17,89	16,15	14,22
Capital from private sector	34,94	26,20	20,64	21,27	20,21	24,23	22,49	27,07
FDI	22,44	28,58	31,58	25,21	18,19	17,07	23,92	24,11

Source : Reports on the investment situation in 2001 from the Ministry of Finance

**Table 2.2: Capitals of development and investment in the period of 1991 – 2000 (%)**

Both groups of interviewees have undervalued these two (see the Appendix B2) . Chart 2.6 shows the effects of these two policies on the development of SMEs.



Source : Survey's results

**Chart 2.6: Evaluation of investment promotion policy's effects**

It is obvious that the local investment promotion policy becomes practical to SMEs because their activities depend on the local capital. In the common trend, the investment encouragement policy increases the business opportunities and competitiveness of SMEs. However, the investment encouragement policy has been undervalued in comparison with other macro-economic regulation policies for a number of reasons as follows:

+ The infrastructure construction does not meet requirements although it was paid a lot of attention. It has not yet created a favorable business environment for SMEs.

+ It is not truly encouraging SMEs to concentrate on investing in industrial development, therefore, a large number of SMEs invested in trade and service activities.

+ The State's regulations of encouragement and favor have not yet become practical due to a series of tiresome procedures and discrimination in issuing the favorable investment licenses. Enterprises have no way to approach the investment encouragement funds, for example, development support fund and stimulate industry fund, etc . Meanwhile, in order to obtain the supportive capital from these funds, many enterprises have to separate or set up new ones aiming at dispersing their own financial resources.

+ There is a lack of the long-term development orientation for industrial branches. Policies are unstable, inconsistent for investors to select the favorable investment projects. In other words, the State does not promulgate the necessary guidance for increasing the effective investment and policies are implemented differently in different areas. The clear measures depend on government officers' attitude on the process of dealing with issues relating to SMEs.

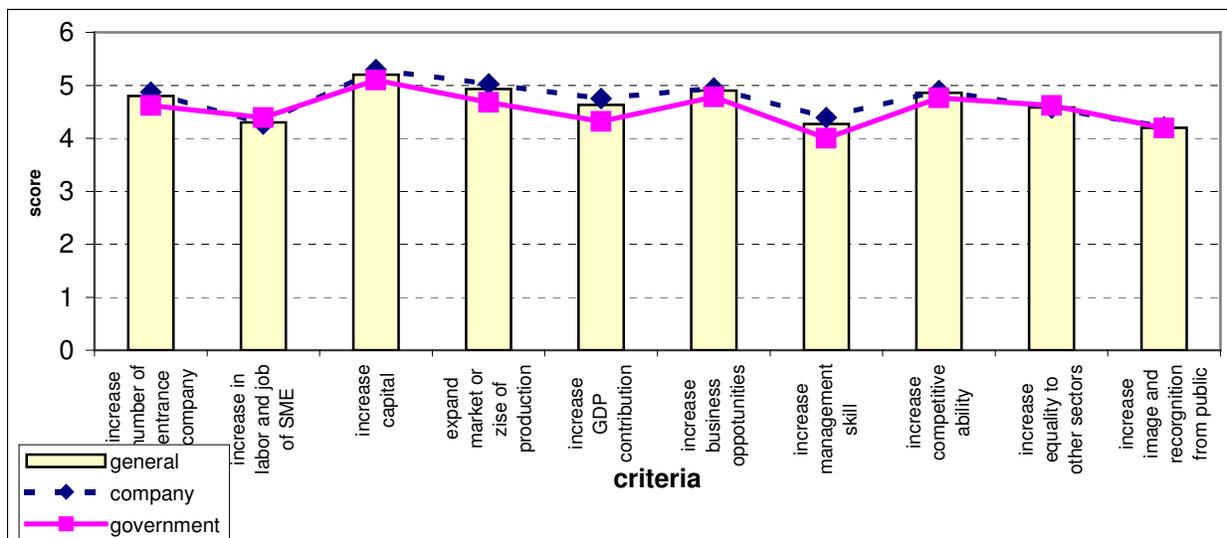
### *2.3.2. Impacts of Credit Policy*

Besides financial policy, credit policy has experienced many changes during the last few years. Major changes include: Decision No. 18-H by the State Bank of Vietnam (SBV) dated April 17th, 1988 on issuing temporary regulations on the loans to private, individual and household clients; Instruction No. 202/HĐBT dated June 1991 by the Council of Ministers on the business capital loans to farmer households, regulated market-based interest rates, diversification of credit forms from bank loans to other financial institutions. As the result, loans to non-public SMEs have sharply increased. However, capital mobilisation is unbalanced and small compares to the percentage of SMEs in the economy. The reasons lay in private SMEs' difficulties in accessing official credit market, despite the fact that private SMEs are recognized and encouraged to develop. Consequently, most of non-SOE SMEs mobilise capital through unofficial credit market, i.e. loans from families, friends and collective funds, although interest rates are sometimes very high. All these unofficial capital sources are not regulated by the State.

According to a recent analysis by the Japan Bank for International Cooperation (JBIC) of the development of private sector in Vietnam, difficulties in capital mobilisation of SMEs are due to the low development of banking system, which impedes the flows of savings from savers to investors. The dependence of private enterprises on unofficial loans presents low-influential impact of financial and credit policies on these enterprises. This dependence delivers losses to non-SOE enterprises due to much higher transaction costs and interest rates. Interest rates for this types of loans can triple the interest rates by official loans. Many private SMEs do not use banking services for their business transaction and do suffer from inequality comparing to SOEs regarding terms and conditions of loans.

The Government uses credit policy as a tool to regulate money supply and to help enterprises overcome capital difficulties. During recent period, credit policy in Vietnam has been

improved. However, impacts of this policy only meet 70% of requirements due to various reasons. This is why respondents score credit policy 5/7 points. Regarding roles of credit policy with SMEs development, SMEs and government officers both say this policy is influential to SMEs' capital raising. All respondents score more than 5 for these impacts. Actually, despite the encouragement by the Government on SME loans from preference sources, SMEs do not know how to access these loans and bank disbursements for SME loans are very difficult. Many enterprises say they are aware of preference loan policy but do not know where to access these loans. Those who have accessed to preference loan procedures complain about their complicated, costly and time-consuming nature. Bank staff meet many difficulties in disbursing capital to SMEs such as compliance to loan terms and conditions or risk-minimisation of private SME loans. Whatever problems remain, the role of credit policy to SMEs' capital raising is undeniable during the last few years.



Source: Survey's results

**Chart 2.7 : Evaluation of credit policy' impacts**

Besides the role of capital raising, enterprises also recognise that credit policy helps expanding the market (5.03 points) and government officers recognise that credit policy helps expanding business opportunities (4.78 points). Government officers rank management skill improvement the last (4.0) and SMEs rank public reputation improvement the last (4.21). In conclusion, credit policy's impacts are positive to the development of SMEs compared with other financial policies, given the lowest score is 4.0. This is illustrated in Chart 2.7.

Despite many recent improvements, credit policy in Vietnam remains following weakness:

- Interest rates remain high, lending procedures and mechanisms are inappropriate and unattractive to enterprises, particularly SMEs. Many enterprises are reluctant to use bank loans and often seek for loans outside of official credit market.
- Lending mechanisms using mortgage assets are inefficient to SMEs since they themselves are needing capital and assets. Banks apply many improvements and diversifications of mortgage assets but difficulties to enterprises still remain. Using goods as a mortgage, enterprises need to seal up the goods. This slows down business transactions. Most SMEs use private property of business holders or members such as houses, cars, etc. as mortgage assets. SMEs always complain that banks try to protect their loan capital and do not recognise banks' role in risk-sharing. The relationship between enterprises and banks in business are considered unequal.
- Disbursements of supporting funds and foreign loans through 'two-step' credits are very low and complicated. Enterprises do not know how to access these loans when money is frozen in the bank. Often, bank loans to SMEs are short-term, not long-term. For six-month projects, enterprises are able to reach a loan due in 3 or 4 months.
- Bank capacity and management system seem inefficient in direct access and consultancy for SMEs in monitoring and governing loans. Therefore, banks are even reluctant to lend to feasible projects. Often, banks give loans to enterprises which have high growing reputation and valuable mortgage assets. Disbursements of bank funds, therefore, are slow. Some joint stock (JS) banks start to apply more types of mortgage assets in order to be more competitive to SOE banks in lending and accessing SMEs. It will be hard for SOE banks to compete with JS commercial banks if they fail to renovate themselves.
- The country's stock market does not operate well. Only few SMEs are able to be listed and to use this as a capital raising channel.

### *2.3.3. Impacts of Customs and Trade Policies*

Setting up the open-door economic and developing trade relationship with the rest of the world is one of the most important issues of Vietnamese economic renovation policy. The State have made some policies to loosen the export-import regulations. In the past, SOEs has the rights to operate in the field of foreign trade, and currently, traders and manufacturers from all economic sectors also have their rights to export and import materials for their production and business. The mechanism of export – import management was changed. As the results, the export – import transactions have increased rapidly since 1989. According to reports from Ministry of Trade, since 1989, the export – import activities have annually increased more than 20% in average. After 6 years (1990 – 1995), the export value increased by 2 times and the turnover increased by 2,5 times. However, most of non-stated entities had to entrust their export activities to big SOEs in this period. The private economic sector only occupied 15 – 20% of the total export – import licences. Since 1998, the Government have made improvements in order to promote export –import liberization. The Decree number 57/1998/ND-CP paved the way for enterprises of all economic sectors to export their products. With the Decree 44/2001/ND-CP in August 1st 2001, traders of all industries have their rights to export directly; the number of exporting enterprises increased from 3.500 (in 1998) to 20.000 (in 2002). Most of them are small and medium enterprises. The number of goods items need to apply for permission to export also reduced significantly. Thanks to the implementation of the policy, the goods created by SMEs such as fine arts and handicrafts, traditional foodstuff (coconut candy, cakes made from ground green letils, ect, ...) are sped up to export. Nowadays, the procedure of direct export authorization for private SMEs is very simple and clear. Enterprises may receive export – import authorization together with business licence after 2 weeks. However, a lot of private enterprises still need to export or import in delegated modes to take advantages of prestigious delegates for the first time entering a new market. Besides above positive changes, export – import policy remain some drawbacks as follows:

+ Investors have difficulties in setting up business plans because the list of banned import goods have changed annually. A number of current regulations still create trouble to export enterprises, especially those expanding enterprise or modifying export field to get additional authorization.

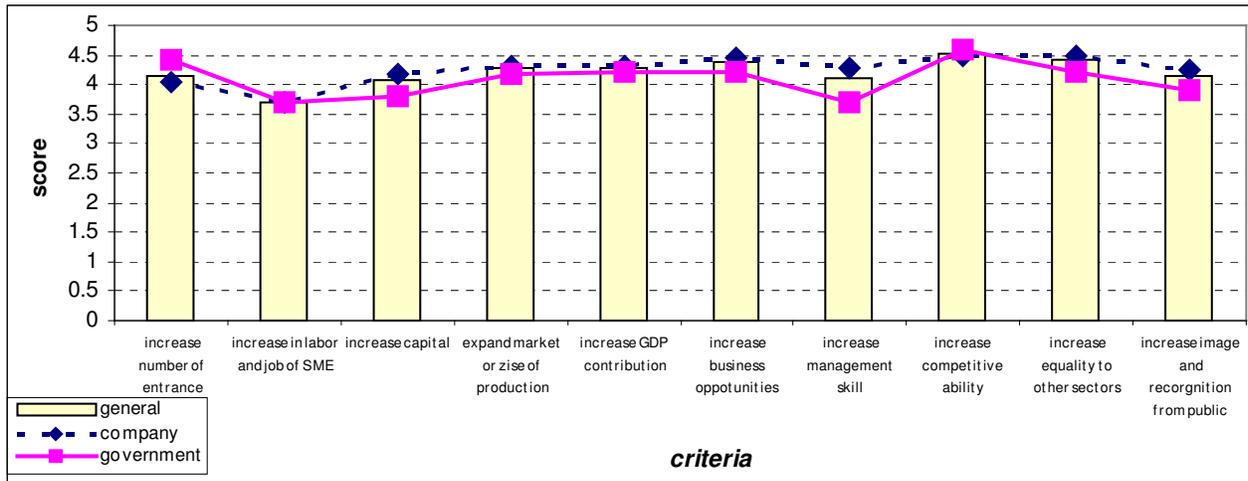
+ The tariff system is too complex and has no supported institution for exporting activities. Nowadays, the activities that supporting export sector are limited within current short – term loans for exporting goods production of big companies. The Government still has difficulties in coping with small importing volume that allow domestic enterprises to compete unfairly on price with illegal importing goods.

+ Domestic trade rights is unclear. The fields that private sectors are not allowed to operate or if any, have to get the approval from Prime Minister are still large (right to exploit small mineral mine, right to run business in marriage intermediary, dent recovering, private detective). The drawback orders some enterprises to « shelter behind » to be subcontract of SOEs. It results in less economic competitiveness.

+ The export – import procedure is improved more rationally, however, phases still create trouble for the enterprises. The expanding of illegal exportation and tax evasion caused many difficulties for enterprises. If the State does not carry out immediately effective resolution to eliminate smuggling situation, counterfeit production and support enterprises to increase quality of products, reduce the production costs in order to improve the competitiveness, SMEs hardly survive after AFTA agreement become in efective in July 2003.

+ Although the Government issues policy to promote exportation and establish exporting assistance fund, the procedure to get loans is still complicated and difficult. Many enterprises are unknown with this stimulation by the Government. The information about this issue is not specific and only stops at announcement of attendance of this fund, but enterprises are not informed from which agency to attain this fund. For this reason, enterprises complain that the Government said it existed but it could not go into effect. Going on with export – import policy change, the customs procedures are little by little improved to avoid bothering enterprises. Many enterprises can carry out the procedures of custom inspection in their own enterprises. However, the latest regulation by customs head department on requirement of enterprises to make exporting plans and to export only according to approved plans has made many difficulties for enterprises when they implement foreign trade transactions because in many cases, enterprises did not list all materials they wanted to import or did not determine the exporting amount that belong to competency of workers.

The impacts of customs and trade policies are represented in the Chart 2.8 below :



Source: The survey's results

**Chart 2.8: Evaluation of custom and trade policy' impacts**

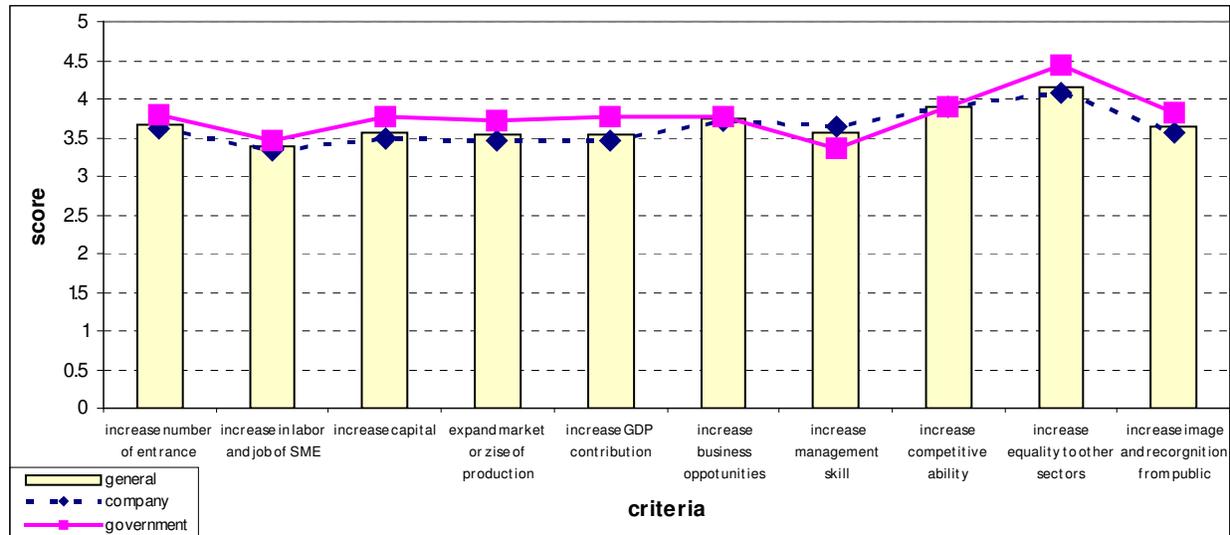
According to the evaluation of interviewees, customs and trade policies are important policies to increase the equality among enterprises and to improve the competitiveness of SMEs. Although enterprises highly appreciated the role of equality improvement, but government officers appreciated the role of SMEs' competitiveness improvement, both of them said that the customs and trade policies did not play their roles in recent years since the highest point of these objects is 4.49 in comparison with the maximum score of 7. According to the evaluation of interviewees, the policy has the same role (approximately 4 points) in comparison with other development factors. This matter reflected the fact that in recent years, the trade policies by the Government had impacted on all development factors of SMEs but with low level and need more improvement in the coming years.

#### *2.3.4. Impacts of policies related to SOE renovation*

The policy on renovation of SOEs is also a tool to regulate the economy. Before 1986, SOEs were considered as the major force in the economy and dominated in most business fields, particularly in the industry. By the end of 1980s, the renovation of SOEs began upon Decision No 217/HĐBT. The decision gave more autonomy to SOEs, increased directors' responsibilities, ensured benefits and welfares for employees. Along with the restructuring of SOEs, the Government has also implemented a series of policies such as equitization of SOEs, selling or

leasing of SOEs. SOEs' activities are much improved. Equitized SOEs have increased the number of non-SOEs.

The decreased number of SOEs and their renovations under various methods have brought about considerable economic impacts such as lowered inefficient subsidiaries, strengthened SOE competitiveness, less unequal competition and augmented state investments in infrastructure. Improvements in SOE sector are also a momentum for the activities of non-SOEs. A large flow of labour, including highly skilled workers, was transferred from SOEs to non-SOEs, therefore, has improved management capacity of non-public sector. Many ex-government officers set up their own business and make valuable contribution to the development of private business sector in Vietnam. However, there are rooms for improvement in the renovation of SOEs such as low process of equitization due to price evaluation. Some post-equitization enterprises want to protect a certain type of State shares so that their access to bank loans would be easier. Some others cannot define applicable law for their operations. Some do not publicly announce the selling of their shares or refuse to sell shares to private and tend to sell shares to long-term staff. These are obstacles to the development of SMEs.



Source: Survey's results

**Chart 2.9: Evaluation of impacts policies related to SOEs renovation**

Regarding impacts of SOE renovation policy on the development of SMEs, respondents give low and highly scattered scores (3-4 points). SOE renovation policy is considered to be important in terms of increasing equality between SOEs and non-SOEs (SMEs - 4.08 and

government officers - 4.34). Both groups agree that thanks to this policy, SMEs receive more equal competition. After equitization, SOEs play on the same field with SMEs, sharing common business environment. However, government officers score this impact higher than SMEs. This implies good policy objectives but implementation can distort the expected results. The scores for this impact are shown in Chart 2.9.

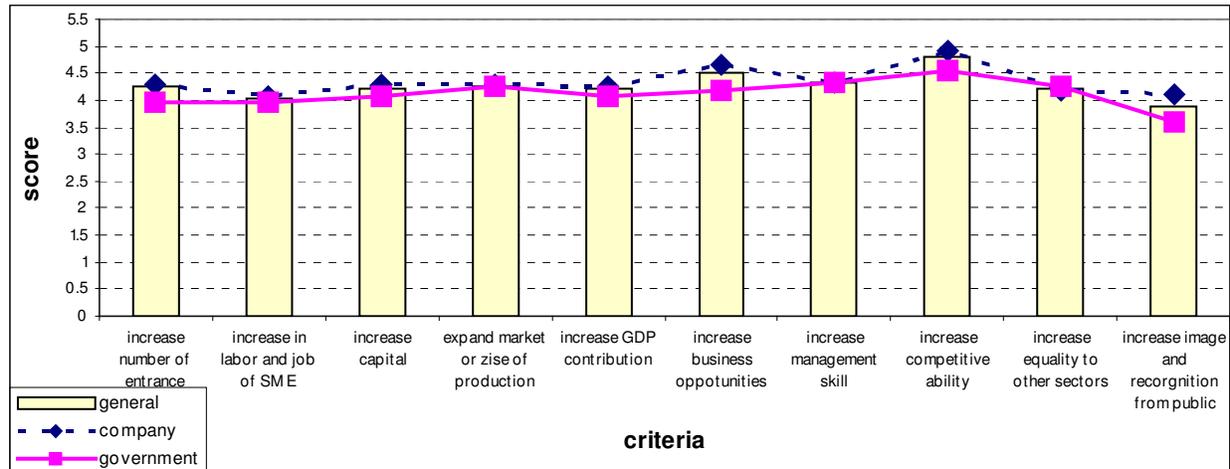
The less influential impact of this policy is on the scale of labour force in SMEs' opinion and is on the management capacity building for SMEs in government officers' opinion. Regarding other development criteria, government officers score higher than SMEs. This is different to the above-mentioned financial and credit policies. SOE renovation, despite improvements, is still far behind meeting SMEs' needs for their development support.

### *2. 3.5. Impacts of Other Policies*

Besides financial and trade policies, the Government also applies technology, training and land policies to regulate macroeconomics aspects. These policies make considerable impacts on the development of SMEs in Vietnam during the last few years.

\* **Technology and Training Policies** Considering technology and human resources as crucial factors to the country's development, the Communist Party and the Government of Vietnam have made a lot of efforts to develop technology and training policies. Technology and training policies, however, have not much encouraged new technology and human development investments by SMEs. There is a lack of separate policies for training in capacity building for enterprises' proprietor and job skills for employees. At present, the most challenging technology issue facing SMEs is related to industrial ownership and trademarks. Some SMEs, particularly craft manufacturers, complain that their products are threatened by lower-price imitating products from their competitors only a few days after launching. Some machinery and home application manufacturers face similar situations and they apply a negative solution - first, they launch an imperfect product; after imitators launch copying product of the same quality, they remove the imperfect product, then re-launch the perfect product to gain the market. Although being aware of the registration for product trademark and industrial ownership right, few enterprises are actually involved in these activities due to cumbersome, time-consuming and costly procedures. Advertisement and communication with the public costs are still required after

the registration since the registration office publicizes only a small notice hung on the office notice board. This practice does not support the enterprises. Therefore, many of them manage such registration overseas to be fully protected and also to reduce time and costs involved.



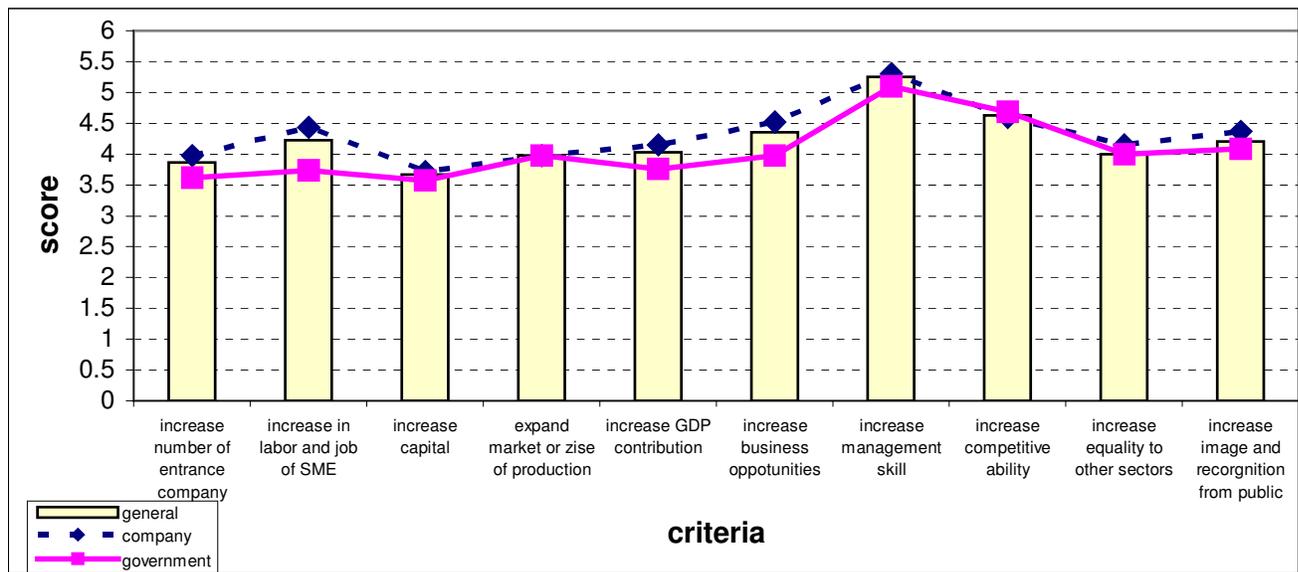
Source: The survey's results

**Chart 2.10: Technology policy's impacts**

Chart 2.10 presents some evaluation analysis of technology policy. According to this evaluation, although giving different weight to the policy, private enterprises and government officers both share the same view that technology policy is important to promote enterprises' market competitiveness. Scores given to development criteria are quite similar (around 4-5 points). However, similar to other policies, technology policy is not yet an influential one to the overall development of SMEs due to some imperfect implementation matters as discussed above. The role of the policy is less appreciated by government officers.

Along with technology policy, training policy is also evaluated not higher than any other macroeconomic policies. The evaluation of these policies' impacts on the development indicators of SMEs is shown in Chart 2.11. Respondents confirm the major role of training policy in the improvement of management in SMEs (more than 5 points) and minor role in capital raising or in increasing the number of enterprises. Enterprises also give training policy higher scores than government officers do. This means that enterprises are able to access training from various sources for the sake of management capacity while Government's investment in training support for SMEs do not count as much.

From policy issuance and implementation points of view, technology and training policies, with objectives of improving SMEs competitiveness and management, and extending business opportunities, are more appreciated than other impacts. However, the degree of impacts is still far from meeting SMEs' needs. Nevertheless, the role of developing equality among state and private enterprises is yet to emerge. Training programs are more favorable for large enterprises with strong financial capacity. Technology policy tends to pursue costly high-tech transfer. Few SMEs can benefit from such favorable preference.



Source : The surveys' result

**Chart 2.11: Evaluation of training policy' impacts**

Below is some weakness of the current technology and training policies:

- Vocational training has not been focused. Vocational training institutions are in short of teachers and facilities. Most SMEs, therefore, are unable to employ graduates from such institutions and they have to do home training right after recruitment.

- In professional training institutions, there are no long-term programs for SME management training. This type of training is limited in short-term training centers and often has low quality since there is no government agency responsible for the evaluation and accrediting of these programs. Usually, these programs only meet immediate needs of SMEs.

- Technology policy fails to resolve issues facing SMEs regarding trademarks and

industrial ownership. Many SMEs perceive that this policy supports large enterprises only.

- There is a lack of detailed guideline for the trading of technology equipment. Many SMEs buy equipment without knowing that this type of technology is not allowed to be imported until they conduct custom clearance. Many private SMEs do invest in high-tech areas, particularly in software development, but receive little encouragement from State policies. There is a lack of a monitoring administration agency in this area.

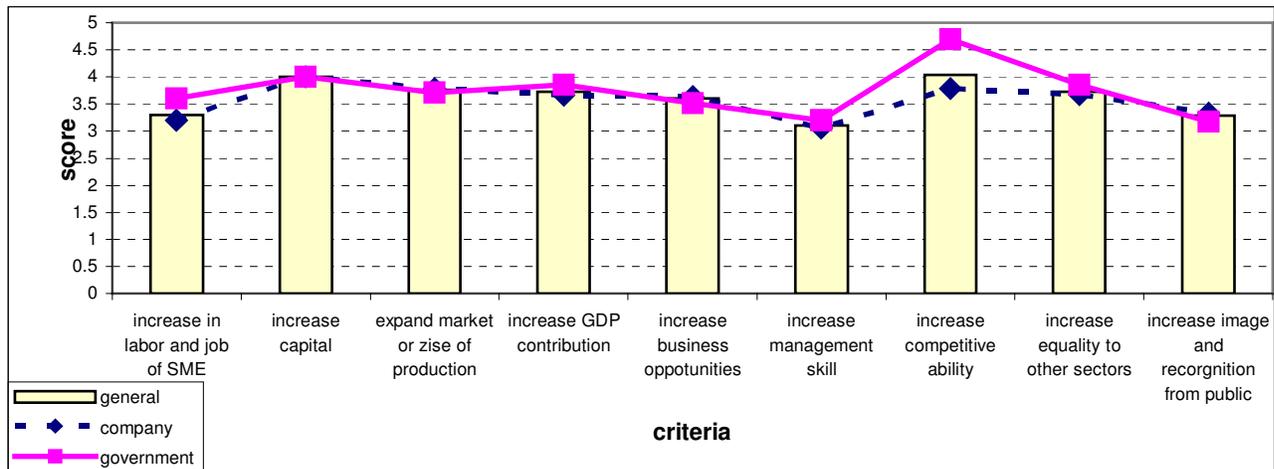
- The Government has under-evaluated the importance of the two policies to the development of SMEs whereas SMEs value these two policies higher than government officers do.

\* **Land policy**. Land policy is one of the most challenging issues facing SMEs, especially private ones. For SMEs, land is not only a physical area to do business or manufacture but also a valuable asset for banking mortgage. Recently, the Government has improved its land policy to help enterprises buying or leasing the using rights of land more easily. There are SMEs industrial parks (IPs) in many provinces. Most of these IPs were established by a group of SMEs purchasing land using right, building plant, then applying for an IP plan and getting approval of local authorities.

However, current SME IPs have not yet met land and business venue needs by SMEs. Many SMEs have to lease unused land from state agencies or SOEs, or private land for short periods. This causes instability and SMEs cannot invest heavily in facilities to meet production requirements. Government's land policy is now at the step of partly resolve SMEs' needs for land.

Using land as a mortgage for bank loans is also limited. The Government has simplified procedures of transferring using rights of land and issuing certificates of land using rights. However, the evaluated price of the land is much far from its market value. This causes many problems for SMEs using land asset as a mortgage. When scoring land policy's impacts, government officers give higher points than SMEs do. While government officers think land policy plays an important role in SME competitiveness improvement (4.6 pts), SMEs do not think so (3.6 pts). It seems that objectives of the policy have not been fully obtained. SMEs do

not see considerable role of the Government in providing solutions for land problems and therefore give this impact lower point than any other impacts. SMEs expect land policy to resolve problems related to capital raising (SMEs give this impact maximum 4 points), but the policy has not obtained this expectation. Other impacts of land policy are minor and received scores lower than 4 from SMEs (see Chart 2.12)



Source : Survey's results

**Chart 2.12: Evaluation of land policy' impacts**

Current land policy's imperfect aspects place a considerable obstacle to investment by private enterprises. Enterprises meet difficulties in finding business land, in switching from land using right tax to land rent which is much higher, and in transferring of land using right. These are urgent issues to be addressed to improve investment environment for enterprises. Checking objectives of problem resolving related to industrial land, equality improvement and business opportunity extension for SMEs, current land policy has the following weakness:

- There is a lack of detailed policies regarding the establishment and operation of SME IPs. Land compensation for farmer in exchange for IP land meet difficulties. There are IPs which have charged enterprises 2-year rent but failed to clear land, keeping enterprises to wait for unlimited time. Some have to seek for other land resources. Also, costs in IPs are relatively high in correspondence to SMEs' scope.

- A policy which requires a minimum lease of 2,000 square meters is not suitable to SMEs since some of them need only 1,000 square meters. Meanwhile, there is no mechanism allowing 2 enterprises to share one area of 2,000 square meters. Therefore, many SMEs cannot enter the IPs.

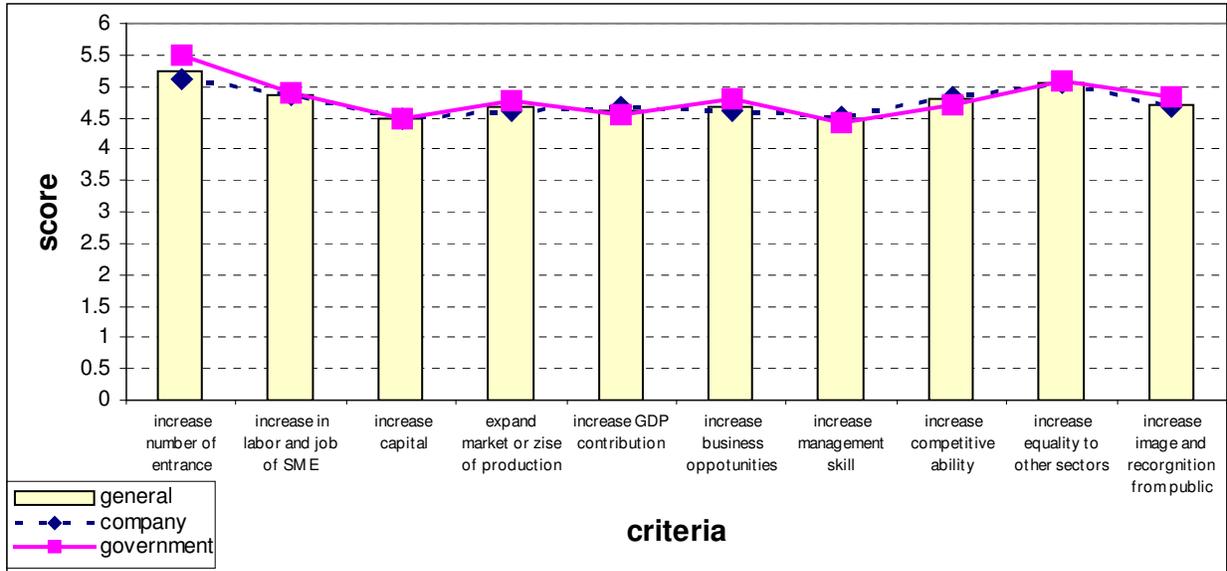
- Land is also being used unstructurally and unequally. Many enterprises and state agencies have free land or have misused land while SMEs are hungry for land and have to lease at high and unstable rates. A single common land policy applied for all business sectors is inappropriate and unfair for SMEs while the needs for land varied by business sectors and by regions.

#### *2.3.6. Impacts of Enterprise Law*

Besides the macro – economic regulation policies mentioned above, in the past, the Enterprise Law, which was promulgated in 1999 and has become into effect since June 1st 2000, plays a key role in encouraging the development of SMEs in Vietnam. It is possible to say that this is a breakthrough in the process of renewing and improving the administrative procedures in the Country. As analyzed above, thanks to the promulgation of Enterprise Law that creates more favorable conditions for establishment of enterprises. It also requires more methodical activities' firms and creates a legal corridor for firms' activities. This increases the number of SMEs and labor force.

In addition, the Enterprise Law also creates more rights for free business. It also creates conditions for enterprises to enter the market , increases more jobs and exports products, for example vegetables, fruits, salts, ect, that were not paid attention in the previous time.

In comparison with other macro economic regulation policies, the Enterprise Law' impacts are evaluated at a medium level. Unlike others, the Enterprise Law was enforced after a period of careful preparation. Although the content of Enterprise Law is still in the process of more improvement, every firm and government officer know the new one. It presents the issues relating the Enterprise Law. Meanwhile, the whole system of Government policies are unknown by every firm. The Chart 2.13 makes some evaluation of new Enterprise Law' impacts



Source: The survey's results

**Chart 2.13: Evaluation of enterprise law' impacts**

#### **2.4. Enterprises' response to Government policies**

After evaluating the impact of each government policy on SME development, interviewees had been asked for their ideas about the attitudes of both local and central government towards enterprises and how enterprises respond to government policies. The results of survey as follows:

Attitude of government agencies toward enterprises based on the contribution of enterprises to the economy and the society. The contribution of enterprises can be represented by the number of employees be hired or enterprises' the volume of tax payment.

- According to survey's results, there are 71.3% interviewees agreed with the statement "the bigger the enterprise is the better the attitude of the central government agencies is".
- The result is nearly the same for local government agencies. There are 73.4% of interviewees agree with the statement that "the bigger an enterprise is the better the attitude of the local government agencies".
- The size of the enterprises can be presented by the number employees are working for the enterprises and volume of tax payment contributed by enterprises. Survey's results related to the size of the enterprises are consistent for both central

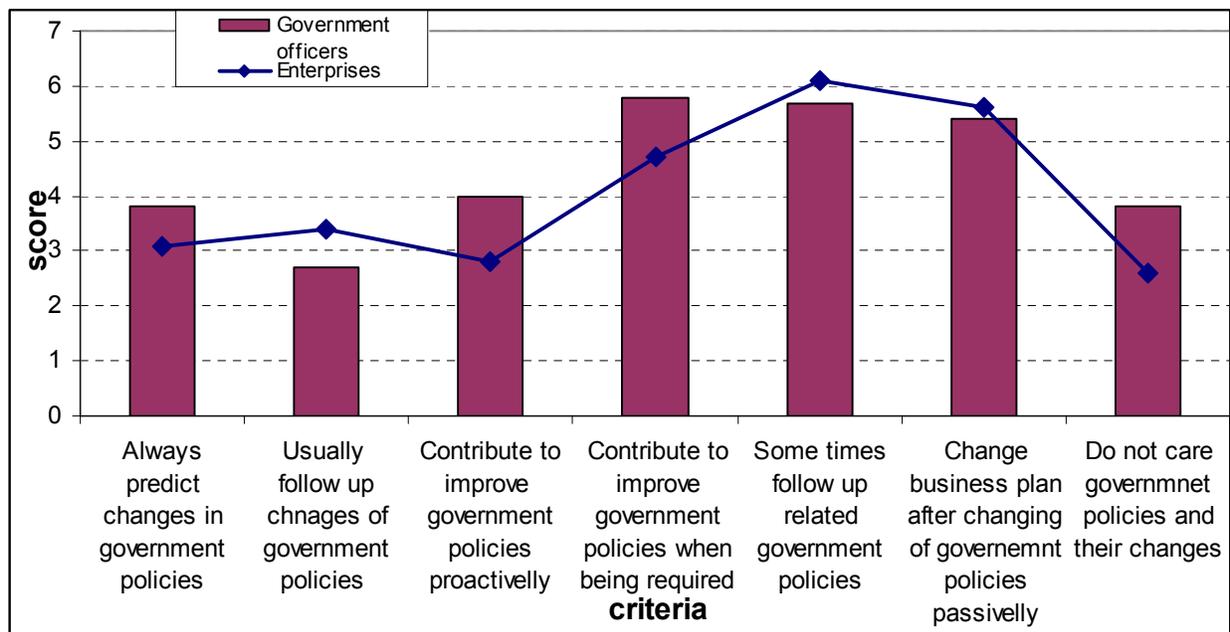
and local levels. 79.7% interviewees agreed with statement “The more people you employ, the better the attitude of the central government agencies towards you.” And 88.0% of interviewees agreed with statement “The more people you employ, the better the attitude of the local government agencies towards you”.

- The level of agreement on the volume of tax payment is lower but it still supports for statement above. There are 64.1% of respondents agreed with the statement “The bigger your tax payment is, the better the attitude of the central government agencies towards you”; and there are 70.4% respondents agreed that “the bigger your tax payment is, the better the attitude of the local government agencies towards you” (*See appendix B1 for more detail*).

The application of government policies at different government agencies and different levels are not consistent.

- There are only 16.1% of respondents totally agreed that “government policies are applied consistently by different official agencies”. This rate is not high. In fact, government policies are not specific for each type of the industries or provinces. This results in applying government policies are not the same at different official agencies and provinces.
- Moreover, the relationship between local and central government agencies are not closed enough. There are only 52.4% of interviewees agreed with the statement “ Co-ordination between the central and local government agencies is good”. Some of policies issued by central government are not effective at provincial level. In contrast, some good policies from local agencies have been not supported by central government. There are 65% of respondents agreed that “There are good policies at local level, but central agencies frustrate implementation”. In fact, all most all policies come from central level. There are 53.1% of interviewees agreed that “there are no initiative at local level. All policies come from the central”. This has been representing a fact that local authorities are not really creative and proactive in creating good policy environment in their own provinces. They much depend on central authorities. (*See appendix B3 for more detail*).

Making confirmation on some impacts of policies related to SMEs' development, a question has been raised that what have enterprises themselves done to make some changes on government policies? How does the enterprise–government relationship impact on improving policies? The answers given by most of enterprises are very different. Surveys have shown some enterprises' response may impact on the government policies. The different levels of enterprises' response are evaluated not only by enterprises but also by government officers as well. For instance, regularly forecasting the policies' change and monitoring policies' fluctuation, making contribution to the policies' modification and improvement if required or taking the initiative in raising opinions, etc... The above responses have been evaluated at different scores from 1 to 7. The Chart 2.14 about survey result is shown below:



Source: Survey results

**Chart 2.14: Respond to government policies by enterprises**

In fact, government policies now have been hardly predicted, thus there exists no more than 50% of enterprises take part in forecasting policies' fluctuation, and around 50% of them regularly pay attention to changes of policies and 50% wish to actively make some contribution to government policies. However, in government officials' opinion, there is a limited number of enterprises actively make contribution to the government policies, and they usually do it only when required. Both enterprises and government officials think that there is a large number of enterprises currently interested in government policies to some extent. There appears that their

responses are passive and they often make changes of their plans in accordance with some changes of government policies.

The above graph shows that there is a big gap on the matter of acknowledging enterprises' response to government policies. It does not have a common voice on common policies. The fact shows that enterprises see their interests in policies at a very low level, whereas, government officers give higher score for this. It means that the government officials' acknowledgement has not met enterprises' wishes. It is possible that enterprises are very keen on contributing to government policies but they have no opportunity or do not know how to contribute. Thus, when seeing the impossibility of changing policies, enterprises have tendency to passively response to government policies while Government commonly haven't seen its shortcomings to make a suitable adjustment.

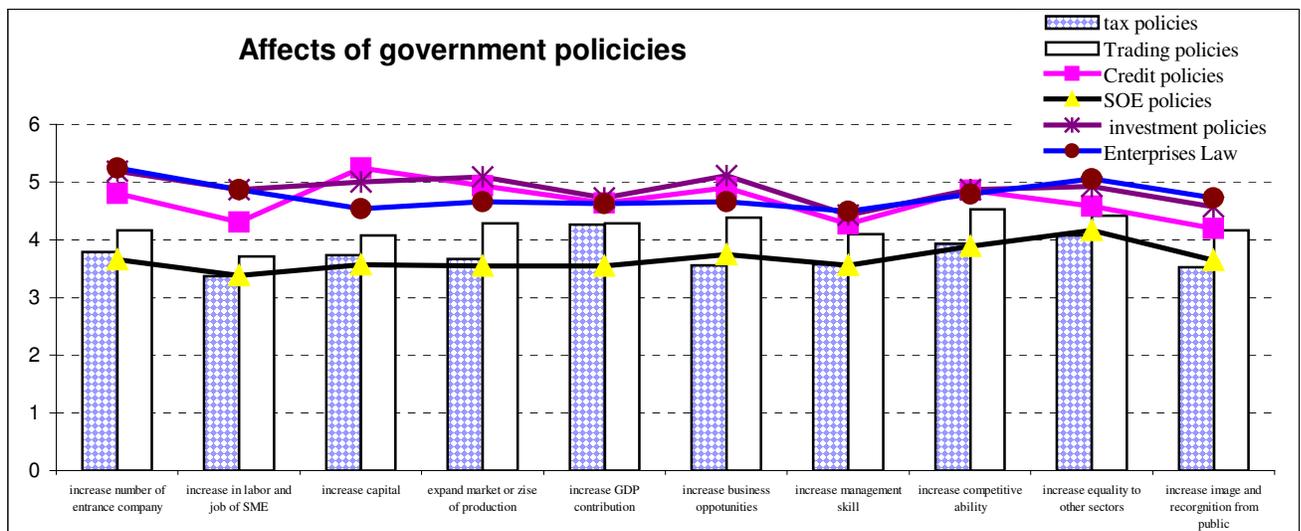
Government has recently held a number of activities and forums to listen to matters on policies system. According to surveys, more than one third of interviewed enterprises attend the forum named Government – Enterprises Dialogue annually held by VCCI, meetings with local authorities to offer their suggestions on the legal documents or inquiries to the related ministries, etc ... Firms admit the fact of considerable improvement by Government in the past years. However, there exists some limitation as follows:

- Enterprises lack of belief in government policies. They only take interest in policies that directly relate to or restrict their production and business.
- Most of them lack of motive in making responses. They consider that their contribution is not strong enough to change government policies.
- Government has not yet created favorable conditions and promotion for enterprises in setting up policies. Most of policies are still subjective and represent desires of Government. It lacks suitable channels and forms of participation in building up its policies. Besides, firms' contributions to government policies for improvement and validity enhancement have not reached to them to create their belief.
- Firms have not played an active role in watching some changes of policies to forecast and build up their plans. The role of enterprise–government information exchange on renewed policies is very weak. For instance, a firm only informally receives information of an adjusted policy from mass media but does not receive any formal document. Thus, enterprises have not acknowledged their role in learning information

related to government policies. Government itself has not brought out enterprises' role and responsibility, thus there appears a shift on blaming each other in not delivering information to enterprises.

### ***2.5. General conclusion about the effects of government policies on the development of Vietnam's enterprises.***

The surveys show that although there are some differences in evaluation by government officers and enterprise managers, but SMEs are recognized due to their significant development in both quantity and quality. Thanks to many efforts by Government and as well as enterprises, a great number of SMEs has been increasing, SMEs gain more favorable conditions, concretely, the improved business environment and more equal enhancement with other economic zones. With the unceasing improvement of policies system, it also creates more business opportunities for SMEs. The most significantly influential policies to the SMEs' development are follow: policy of domestic investment promotion, policy of finance and credit, and new enterprise law. Effects of these policies, however, have shown some disagreement between entrepreneurs and policy makers. It proves that the aim of policy may be fine but its effect is not as expected due to limitation in the process of implementing policy. Result of surveys is a piece of evidence in evaluating influence of government policies. The common impacts of some key policies have been illustrated in the Chart 2.15 below



Source: Survey results

**Chart 2.15: Impacts of some key policies**

In general, policy of domestic investment promotion, policy of credit and Enterprise Law are more highly evaluated than others in pushing SMEs' development. The two policies named policy of renovating the state enterprises and policy of taxation are lower appraised in the process of pushing up enterprises' development. Each policy, however, has its own aim and its concrete effects on SMEs' development. There is no existence of any policy's effect to aspect or factor of enterprise development, concretely:

- The new Enterprise Law and policy of domestic investment promotion have a great influence on a number of SMEs (more than 5 marks). The policy of renovating state enterprises and policy of taxation have not brought about much effects in raising number of SMEs.
- Policy of credit gives the strongest impacts on increasing capital for SMEs, meanwhile, policy of renovating state enterprises have weakly influenced in terms of this purpose.
- Policy of domestic investment promotion has been seen as the most influential factor to expand business opportunities for SMEs. The new Enterprises Law was acknowledged to have the biggest contribution to increasing SMEs' equality with other types of enterprises in the economy.
- Some policies with the aim of increasing SMEs' equality and competition are not as highly appreciated as others. Government policies have mostly impressed on enhancing equality among types of firms and creating more business opportunities for SMEs – this is acknowledged by both enterprises and government officers as well.
- There are unequal impacts by government policies on SMEs activities in different types of business or industry. Some policies are very sensitive to productive enterprises, for example, policy of land, policy of industrial zone for SMEs, but not to business enterprises. In the past years, service enterprises have been rapidly developing, typically, service industry of providing high technology that appears very sensitive to the impacts of financial policy, credit policy and policy of renovating

state enterprises. Enterprises' activities, however, are still spontaneous in some areas due to the lack of government regulations.

As the result, with some analysis on SMEs development dynamic and government policies' impacts on SMEs development in the past years, we can reach the following conclusion:

*Firstly*, some clear and consistent policies for promoting SMEs development have been promulgated by Government. The fact shows that business environment, however, is not truly favorable for private SMEs to have a high speed of development as Asia countries. It is clearly indicated that in implementing government policies in the past and in evaluating impacts of these policies, government officers are more optimistic due to their subjective wishes, but on the other hand, enterprises are making some strict evaluation on policies since they are facing many difficulties. Otherwise, a number of government policies are highly appreciated by enterprises because they meet their requirement and can deal with difficulties in business.

*Secondly*, although the number of private SMEs rapidly increase in recent years, this zone is not developing in real sense. This is indicated by quality indicators in development process, for example, some limitation of SMEs in competition ability, management competency, and backward technology. Government policies related to SMEs development currently are in the process of improvement, thus they are unstable and hardly predicted. For this reason, Government should regulate some inadequate of policy system as soon as possible, otherwise, enterprises will meet many obstacles, especially in the process of integrating into AFTA. In fact, most of Vietnam's business operates unmethodically and in the forms of individual business or households. It requires some concern from Government in building up and forming business culture for Vietnamese SMEs through general programs.

*Thirdly*, Government policies do not fairly impact on all types and industries of enterprises, sometimes only bring interests to a given type of enterprise and business with their own features and requirements. A policy may be dedicated only to trade enterprises but not to productive enterprises. Thus, Government should consider differences within firms to promulgate suitable policies.

*Fourthly*, enterprises still make passive responses to government policies. There is no closed co-operation between Government and enterprises in improving and regulating some limitation of policies. Providing information on changes in government policy system has not been clarified, consequently, enterprises and Government blame each other when information does not reach enterprises. Information channels of Government and enterprises do not truly make effective operation to create easy understanding and to share information between Government and enterprises.

*Fifthly*, there exists some limitation of policy mechanism system and development promotion model of Vietnam SMEs as follows:

- In formal regulations, Government's view is to ensure equality among economic sectors. In fact, there appears some discriminatory treatment in localities. And it doesn't make clear definition of subjects need to be assisted due to a very large number of SMEs.
- In general, it has focused on giving support for countryside, highland and industries attracting more labour at its first step. There is no clear view on helping the weak ones to develop.
- The overall strategy plays a key important role in orienting SMEs' business development with larger, more effective and more expanded scale ... However, there has been only common economic development strategy for the whole economy, not for SMEs in particular. The determination of priorities for productive industries, concrete areas are not truly based on economic efficiency and comparative advantage. Some implementation has not escaped from subsidiary thought, for instance, investment promotion policy. Though investment structure with some renewal, it has greatly focused on heavy industry or has mobilized capital into industries or projects with low social – economic effects. A large number of investment areas that should have been done by the people, are still subsidized by the Government. There is no right combination between big orientation strategy, step plan and solution for each period or no concrete implementation of policies and measures. It seems that the current tendency is to disregard plans, schemes and forecasts. In localities, authorities

- still land in an embarrassing situation of forming a general development strategy, they have not nearly focused on SMEs development strategy.
- There is no consensus between policy implementation system and policy promulgation system. Moreover, government policies have not yet created an “effective playing field” in making combination of SMEs support factors. This lessens the effects of SMEs development promotion policies.
  - There is numerous shortcoming in promulgated legislations, for example, some limitations of Enterprise Law are: owners hold the whole property rights, and legal entity is not clear. Law and documents under law keep constant surveillance rather than create a large corridor for promoting enterprises to the highest degree in business development.
  - There still exists separate laws for different types of enterprises: State Own Enterprise Law, Enterprise Law, Foreign Investment Law. This creates discrimination between different enterprises and therefore, the Government should promulgate one common law for every type of enterprise.
  - The making procedures of drafting a legal document is not logical, mainly by government agencies, not by holding a referendum. Making the draft of legal documents is not cemented to practice in Vietnam and is not analysed before implementation. As the result, a number of laws need modification immediately after being promulgated.
  - It lacks essentialities in promoting and supporting SMEs. In the above mentioned legal documents, there appears several clauses that promote SMEs in domestic investment law and taxation law.
  - Measure of promotion is very restricted and unsatisfactory. For example, level of tax exemption in the Domestic Investment Law is 1 – 2 years for newly established firms, whereas, it can reach 2 – 7 years in some other countries.

- Taxation policies by Government are still strongly coercive and greatly focus on duty and responsibilities of enterprises as well as taxpayers . As a tool of Government's regulation, it should ensure not only tax payers' responsibilities but also their rights. If this is the case, they will not evade taxation and volunteer for payment.
- In addition, currently, there are some adjusted laws with a group of similar subjects as mentioned above. Several legal documents are not suitable but have not been checked timely, especially taxation law and land law. Many legal documents are not severe and violation settlement is not strict and clear, consequently, they appears unsound and non-strict. Results from surveys of Central Institute of Economics and Management shows that 52,9% interviewees' view of non-strict law execution from SMEs. Government lines and policies are consistent with and attach much importance to SMEs zone development in theory. In fact, there is no existence of concrete institution or organisation being entrusted with a task of taking care of SMEs zone development. Until now, lines and policies for SMEs zone spring from State common line and policies, certainly not from specific policies for SMEs.

### **III. RECOMMENDATIONS TO IMPROVE POSITIVE EFFECTS OF POLICIES FOR SME DEVELOPMENT IN THE FUTURE**

Government's policies have strongly been impacting on development of SMEs. In the future, the Government needs to improve more and more positive effects of policies that impact on SMEs' development as follows:

#### ***3.1 Policies to encourage investment and fund raising***

Enterprise Law has overcome disadvantages of the Company Law. Capital structure in companies including SMEs is more flexible. However, to encourage SMEs in mobilizing capital, the Government needs to have clear mechanism to allow SMEs in issuing security shares, preferred stock and ordinary stock that could be transferred.

Besides, the Government should allow SMEs to sell some percentages of its minimum stock (may be 30%) to foreign investors without permission from the Government in advanced. Thus, SMEs could approach foreign capital sources.

To encourage SMEs to raise foreign invested capital effectively, the Government should have policies to encourage and to allow SMEs to take part in joint venture companies which has foreign invested capital. Currently, there are a few SMEs taking part in this kind of company. However, many foreign companies invested in Vietnam (especially Taiwan's companies, Hong Kong's companies and Japanese companies) are mostly in the form of SME. Joining in foreign joint venture will help Vietnam's SMEs to improve management ability, to approach to foreign market quickly, and to renovate technology.

*Incentive policy for investment:* The Government should encourage SMEs to invest not only in trading and service with purpose of high rate of return on capital, but also in exporting, industry and consumer goods producing. This will promote SMEs' role in changing economic structure in Vietnam.

#### ***3.2. Banking-credit Policies***

*Firstly*, it should be equal between SMEs and other companies in borrowing capital from banks. Banks should collect information about their customers from different sources, redress

their accounting and auditing system and daily update data in order to help SMEs to overcome difficulties in capital as well as to be safe for banks. Based on that information system, banks could consult for SMEs to design and implement feasible plan, and to manage capital effectively. As the result, banks will be able to share difficulties with SMEs.

*Secondly*, banks should adjust collateral policy for bank loans. Recently, many companies can not borrow from banks because of having no collateral assets. To solve this problem, banks agree with SMEs to use assets to be taken shape by loans or goods as collateral for bank loans. However, a lot of business still do not meet bank's regulations about collateral. In some cases, banks could estimate value and potentiality of good business plan to lend to SMEs. Banks could also supervise implementation of that business plan to reduce risk in business. In this case, the good business plan should be considered as a good collateral for bank loan.

*Thirdly*, there should have fund for supporting investment to lend long and medium term loans. Establishment of this fund is under article 7 in Domestic Investment Law. However, there are many difficulties in implementing this article and there is a need to solve some following problems:

- Specifying mechanism of fund for investment, for example fund for investment in infrastructure, in innovating technology and in training human resources.
- Determining organizing mechanism and activities of this fund in order to mobilize local capital effectively. This fund plays a role as intermediary financial organization to get preferences from the Government and gives preferences to companies that are supported.
- Determining companies who are supported with specific requirements.

*Fourthly*, expanding kind of financing lease is an effective solution for SMEs in order to overcome difficulties in getting capital to renovate technology and expand production. In addition, the case of capital freeze will be solved for trading banks. Financing lease is long-term intermediary credit. Instead of borrowing money to buy equipment or other assets for the company, company will directly receive equipment or assets that are meeting to its demand. The leaser will pay by installments and after certain period of time, the leaser could buy back that equipment.

*Fifthly*, pushing the establishment and operation of Credit Guaranty Fund will help SMEs to borrow capital when they have difficulties in collateral. Credit Guaranty Fund can guarantee for long-, medium- and short-term loans to effective business plan. However, to make Credit Guaranty Fund to be effectively operated, there should have clear regulations about Credit Guaranty Fund's responsibilities for credit organizations and companies as well as to have clear managing and operating mechanism. This will help to avoid the appearance of intermediate stage in business activities between SMEs and banks. The Government issued Degree to set up this Fund, but up to now this may still be in paper only. To quickly set up this Fund, the Government should pay attention to find and mobilize capital sources for the Fund. Capital could be mobilized from aid sources or from the help of foreign organizations such as JBIC, SNV, SDC, UNDP, etc.

*Sixthly*, securitizing debts: Currently, SMEs are in short of capital. It is a dummy case because of the appropriation of capital by SMEs. Trade banks have to pursue debts that can not take back before debt's deadline. Securitizing debts will help SMEs to be not in short of capital due to the appropriation of capital by SMEs. The value of debts is written in commercial paper. Commercial paper is used as a credit to mobilize debts in many countries in the world. However, most of Vietnam's SMEs are not familiar with commercial paper and do not use it as a mode of payment and credit/debt in business.

Commercial Law issued regulations about commercial paper, but this is not effectively exploited now because of the lack of market for buying and selling debts. The Government has been issuing regulations about buying and selling debts for credit organizations. However, market for buying and selling debts should be developed equally with stock market.

Besides commercial paper, mobilizing debts may be implemented by LC. Recently, commercial banks and companies only use LC for exporting and importing goods. According to essence and advantages of LC, LC could be used for transaction in local market with simpler procedures. Therefore, the Government and appropriate authorities should consider to apply LC for trading activities in domestic market.

### **3.3. Tax policy**

Tax system is much improved than before. However, tax system especially VAT is a challenge for SMEs. To improve tax system for SMEs, the following solutions should be implemented:

- Tax policies should be suitable for SME's specific conditions. There should have priorities to encourage SMEs towards State's objectives such as tax priorities for SMEs who invest in mountainous area, ethnic minorities, etc. There should have different levels of tax to apply for SMEs and should expand period of tax exemption for SMEs who just start business within 5 years. Tax priorities should also apply for women entrepreneurs or for SMEs which innovate technology creates many jobs.

- Company's income tax should be simplified. Tax exemptions should be eliminated gradually in order to have the same tax rate for all kinds of business. The world's trend is to eliminate tax priorities for all economic activities and to use low tax rate for all kinds of business. This will encourage enterprises to invest in foreign and domestic market, for example, China has successful in some industrial zones that getting miraculous development for its economy.

- Simplifying accounting system and tax collecting system to match with the level of accountants of SMEs. Whenever there is a change in tax, accountants and owners of SMEs should be trained to understand the essence of tax to willingly pay taxes.

- VAT (value added tax) system should be improved more and more. There should improve policy of returning VAT to businesses in general and to SMEs in particular. A slow returning of VAT will lead to appropriation of capital between SMEs. Consequently, this will be an obstacle to their business activities.

Regulations about tax rate should be improved to make it easy for taxpayers and organizations who are responsible for collecting tax.

- Eliminating the practice of paying tax-collectors a fixed rate based on gathered tax and eliminating tax norm for tax-collectors.

- Concretizing tax list to avoid unclear listing of goods in tax list. Therefore tax-collectors can not use different tax list for the same goods.

### ***3.4. Trade policy***

To promote ability and to create favorable conditions for SMEs to develop strongly, firmly, some issues should be concerned as follow:

- Set up clear and firm legal framework to implement trading activities. Commercial Law should be implemented seriously. All kinds of businesses should be guaranteed to fairly play in the market.
- Should have reasonable priority policies for businesses that have import equipment and technology with purpose of producing goods, or for businesses that are in the introductory stage in product life cycle.
- Should have specific policies to encourage and to create favorable conditions for SMEs to participate effectively in exporting, namely:
  - Set up favorable custom procedures for owners of SMEs to go abroad to study foreign market.
  - Allow SMEs which produce exporting goods to have priority policies of credit and tax which are applied for State businesses. Besides, the Government should have policies to encourage and support SMEs to join in promoting program of trade with purpose of introducing products to foreign market.
- Should have policy to protect products which are produced by SMEs to control domestic market towards substituting for imported goods.
- Reform the way to approach international market by reducing tariff barriers to be equal with tariff of countries in the ASIAN's area. Custom procedures should be simplified. This will help to improve competitiveness of SMEs, especially in the process of integration in AFTA and WTO.

- Encourage overseas organizations and overseas Vietnamese to promote SME's products to foreign market and to promote trading activities. Besides, supplying market information, especially foreign market information for SMEs should be respected. There may need a consulting center for SMEs.
- Should have a clear policy for copyright protection and trademark protection for SMEs. Procedures for register copyright should be simplified.

### ***3.5. Other related policies***

#### **\* Land policy**

Land is a big problem for SMEs for past years. To support SMEs to solve this problem, the Government should focus on solving issues related to land as following:

- Give advantage conditions in terms of procedures to help SMEs to buy land-use rights legally and to transfer purpose of using land if it appropriates with the planning of socio-economics development of the area and does not effect adversely to the eco-environment.
- Allow SMEs to have the same priorities in using land as SOEs have or create good conditions for SMEs to make joint venture and to use spaces of SOEs if these SOEs do not have any demand in using that spaces.
- Build up industrial zones, especially SMEs industrial zones. The construction and business infrastructures of industrial zones could be done by domestic organizations who can build and do business by themselves or by joint-venture organizations. However, there should have priorities for SMEs in renting. There needs specific policies to attract SMEs to rent space in the industrial zones.
- Have regulations for SMEs industrial zones. Some SMEs industrial zones were built up. However, renting cost and other conditions to applying for renting land from the industrial zones are very arbitrary. There is also no guidance by the Government. In addition, plan for industrial zones should be clear and public for companies. The plan for industrial zones has to consider SME's requirement about kind of business and

location. For example, service companies or trading companies which do not need large space want to locate in trading centers. The Government may call companies to build up industrial zones by paying in advance renting cost.

- Cross out administrative formalities that make trouble for SMEs in approving land-use rights. The Government should simplify procedure to evaluate the value of buildings to protect rights of owners. The Government should have policies to encourage SMEs to invest in producing in suburban in order to avoid pollution in the city.

**\* Policy for human resource development**

There is no strategy for human resource education for SMEs up to now. Therefore, human resource strategy for SMEs is necessary in the future. Solutions are as follow:

- State has to give criteria for educating. Policy for skill training need to be socialized. Quality of education will be evaluated by owners who use labour.
- Adjusting structure of education towards reducing number of managers and staff and increasing number of skilled workers. Expenditures by the Government or fund from international organizations should be used effectively.
- There should have training program for business's owners. Owning business must be a carrier. Therefore, we could hope there will have professional managers or directors.

**\* Technology policy**

Besides credit policy, technology policy plays an important role in encouraging SME's development. Technology policy must focus on the following solutions:

- (1) Eliminate barriers in technology transferring, for example, eliminating complicated procedures for approving contract of technology transferring or eliminating entry visa to promote Vietnam's researchers and experts to go abroad to study, and participate in conferences.

- (2) Timely supply information about technology for SMEs. This will help SMEs to not import backward technology.
- (3) Encourage to develop information technology. International telecommunication's cost should be reduced to strengthen attractiveness of Vietnam's market.
- (4) Loosen strict regulations on importing used equipment. This will help SMEs to enhance their competitiveness and to save money, however the Country is not a place for out of order equipments.

### ***3.6. Conditions to implement solutions***

To implement above mentioned solutions, there needs collaboration between the Government and enterprises. For the Government's part, the Government enacts and implements mechanisms to support SMEs. For the SMEs' part, SMEs have to overcome their weakness, and to conform to the laws seriously.

#### **\* Government**

- Build development strategy for SMEs. Development strategy for SMEs is basic to orient for development of SMEs in the future. This strategy has to compiled by Ministry of Planning and Investment or by VCCI (Vietnam Chamber of Commerce and Industry), or by an organization that be assigned by the Government. This strategy needs to be approved by the Government. The strategy has to confirm and to point out the role of SMEs in Vietnam's economy. The strategy should also give priorities to SMEs to develop based on industry, geography as well as give orientations for technology development and against monopoly.
- Compile and issue particular regulations for SME's activities. Currently, there are no particular regulations for SMEs. This is due to application of different policies to SMEs and limitation the role of SMEs in past years. Many programs supporting for SMEs are not effective (not in right address) because of the lack of unifying definition of SME. Therefore, the Government needs to enact regulations on SME's activities.

- Set up and improve effectiveness of network of associations and consulting organizations, and support for SMEs: In the market economy, network is very important because it can exploit potentiality within the country as well as potentiality from other countries to develop SMEs. In the past years, many organizations support for SMEs by supplying consulting service, training, etc. However, there is no coordination between those organizations. To coordinate those organizations effectively and to set up network supporting for SMEs, the Government should do as following:
  - + Study and early issue law/or decrees for association's activities in Vietnam. Regulations of organizational form, organizational structure, functions, rights and responsibilities of associations should be stated clearly by law/decreed.
  - + Allow associations to participate in the process of determining economic law and policies related to industry and enterprise community.
  - + Allow associations to participate in setting quota, in bidding council.
  - + Push to establish Council for SME's development. Associations should be permitted to participate in the Council in order to make sure that associations are in the process of designing policies for SMEs.
  
- Set up Credit Guaranty Funds: The Government issued Decree No 193/QD-TTg on 20/12/2001 to set up this Fund for SMEs. This Fund is non-profit financial organization. However, regulations of this Fund are not clear. The number of companies who want to have credit guaranty is very large, but level of credit guaranty is limited. Therefore, if there is no consistent, this Fund will only support for a few SMEs. Until now, there has not been any Fund being founded yet.
  
- Reform administrative service: Administrative procedures should be simplified. Attitude of staff in serving companies has to be changed. Those will make good conditions for SMEs to contact and work with State functional organizations.
  
- Renovate administrative managing to implement Government's policies correctly and seriously. To do this, awareness of relationship between government offices and companies must be changed. Companies must be treated as their customers.

- Improve ability of bank's staff and financial staff by using different kind of education. Technical supporting fund from foreign organizations should be used to train bank's staff, to improve their ability in evaluating projects, and to improve their ability in consulting. This will help banks to be consultant for SMEs in financial and capital management. In consequences, SMEs will reduce risks in business.
- Change inspecting and auditing activities: Recently, inspecting and auditing activities create many difficulties for private companies and SMEs. The Government has strict regulations on these activities by the Decree no 61 issued on 15/8/1998. Enterprise Law also has regulations on inspecting and auditing in companies. In fact, these regulations are implemented unseriously. When appropriate authorities who have right to inspect and audit have mistake, they have never paid any damage for SMEs. Therefore, the Government should have Administrative Court to settle claims from SMEs.
- Co-ordinate effectively between appropriate authorities in issuing and implementing government policies which apply for SMEs.
- Should refer to opinions of related companies when enacting new policies. The participation of companies in designing policies should be highly appreciated.

\* **Enterprises**

To develop SMEs, there needs cooperation and endeavor from SMEs' side. Recommended solutions for SMEs are as follow:

- Build reasonable business strategy to be active in strong competitive market. To have feasible business strategy, SMEs need to study carefully objectives of socio-economics development as well as business environment. Each company should have its business strategy that fit the company's capital, human resources as well as fit on market demand in each period.
- Improve managing system to enhance effectiveness of SMEs. Most of SMEs have difficulties in determining model of management. Each business needs particular

managing model. Therefore, SMEs should determine managing model based on their industry, business strategy, and human resource.

- Enhance marketing activities to penetrate and occupy market. This is a weakness of SMEs. The good marketing strategy will help SMEs to meet customer's demand, to be close to customers and to get sustainable development.
- Implement solutions to reduce risk in business. SMEs may face many risks such as changing in input price, changing in demand, changing in Government's policies, natural calamities, storms, floods. Consequently, SMEs have to implement comprehensive solutions to reduce risks in business, for example, penetrating into market step by step, diversifying products, collaborating with big companies, participating in specialized associations, or buying guarantee.
- Enhance training and developing human resources. Training and developing human resource play an important role in business. However, SMEs still do not pay attention on that, because of high cost and difficulties in keeping skilled workers. Human resource becomes basic competitive factor of many companies, especially in the globalization economy. Therefore, SMEs should invest in training and developing its human resource to improve its competitiveness in market.
- Participate actively in contributing ideas for the Government in terms of shortcomings and limitation in implementing government policies. This will make Government's policies to be better. Besides, SMEs should recognize its rights and responsibilities in implement government policies seriously. As the result, the relationship between the Government and SMEs will be a co-coordinated relationship to build "level playing-field" for SMEs.

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## Appendix A

### QUESTIONNAIRE

The purpose of this survey is to better understand how impact of government policies to development of Small and Medium sized Enterprises in Vietnam. The goal is to use the information gathered to do research only. Please note that the information obtained here will be treated confidentially. Neither your name nor the name of your firm will be used in any document based on this survey.

#### I. GENERAL INFORMATION ABOUT COMPANIES. (NOT USE FOR GOVERNMENT OFFICERS)

1) Name of firm:

- Vietnamese \_\_\_\_\_  
 English \_\_\_\_\_

Abbreviated: \_\_\_\_\_

2) Owner of the company is  man  women

3) Education of the owner  Bachelor  Master  Ph.D  
 other.....

4) Location of firm?

- Ho Chi Minh City  Da Nang   
 Hanoi  Hai Phong

5) What is kind of the sector in which your firm operates?

- Manufacturing: main product line \_\_\_\_\_ (e.g. textiles, chemicals)  
 Services: main service provided \_\_\_\_\_ (e.g. consulting, transportation)  
 Commerce (retail/wholesale trade)  
 Agriculture, hunting, fishing  
 Mining and Quarrying  
 Electricity, gas, water  
 Construction

6) In what year was your firm founded? \_\_\_\_\_

7) Has this firm been registered since the new Enterprise Law became effective? YES NO

8) What is this company's current legal form?

- Private (tu nhan)  Partnership  
 Limited liability  Other (specify) \_\_\_\_\_

Joint-stock

9) Does your firm have overseas investment?  YES  
 NO

10) How many employees are working for your company? \_\_\_\_\_full-time  
 \_\_\_\_\_part-time

#### II. GENERAL INFORMATION OF GOVERNMENT OFFICERS (NOT USE FOR MANAGERS OF THE COMPANIES)



**SURVEYS (USE FOR BOTH MANAGERS OF THE COMPANIES AND GOVERNMENT OFFICERS)**

1, Please rate SMEs' current development in Vietnam by circling the number that represents your ideas/perception with number 1 is the least and number 5 is the most.

	Criteria for SME development	Rate			
1	Increase in the number of small and medium companies	1 5	2 6	3 7	4
2	Increase in number of employee	1 5	2 6	3 7	4
3	Increase of investment capital	1 5	2 6	3 7	4
4	Expand business (size of market, size of production)	1 5	2 6	3 7	4
5	Growth in proportion contribute into GDP	1 5	2 6	3 7	4
6	Increase business opportunities	1 5	2 6	3 7	4
7	Increase management capability	1 5	2 6	3 7	4
8	Increase competitive ability in market	1 5	2 6	3 7	4
9	Improve equalities comparison to other business sectors (SOE) in business game	1 5	2 6	3 7	4
10	Increase in recognition of public citizen	1 5	2 6	3 7	4

2. Please rate the role of development factors in the development of SMEs in Vietnam over the past years, number 1 is the least and number 7 is the most.

	Criteria	Rate		
1	Capital	1 4 7	2 5	3 6
2	Labor	1 4 7	2 5	3 6
3	Market	1 4 7	2 5	3 6
4	Land	1 4 7	2 5	3 6

5	Government policies	1 4 7	2 5	3 6
6	Business network	1 4 7	2 5	3 6
7	Technology	1 4 7	2 5	3 6
8	Education	1 4 7	2 5	3 6

3. Please rate general role of the government policies in the development of SMEs by circling the number that represents best your perception; number 1 is the least role and number 7 is the best role.

	Criteria	Rate			
1	Role in increase number of SME	1 5	2 6	3 7	4
2	Role in encouraging start-up new business	1 5	2 6	3 7	4
3	Role in expanding domestic market	1 5	2 6	3 7	4
4	Role in expanding international market	1 5	2 6	3 7	4
5	Role in solving land problems for SME	1 5	2 6	3 7	4
6	Role in solving capital problem of SME	1 5	2 6	3 7	4
7	Role in improve business network of SME	1 5	2 6	3 7	4
8	Role in increase reputation/recognition on SME in public	1 5	2 6	3 7	4
9	Role in improving business opportunities for SME	1 5	2 6	3 7	4
10	Role in increase equalities of SME comparison to SOE	1 5	2 6	3 7	4
12	Role in growth of gross production of SME	1 5	2 6	3 7	4
13	Role in improving legal environment for SME	1 5	2 6	3 7	4
14	Role in increasing management capabilities of SME	1 5	2 6	3 7	4
15	Role in supplying initial infrastructure for SME	1 5	2 6	3 7	4



5. Do you agree or disagree with the following statements

	Strongly Agree	Agree	Disagree	Strongly disagree	Don't know
The bigger an enterprise is the better the attitude of the central government agencies is					
The bigger an enterprise is the better the attitude of the local government agencies is					
The more people you employ, the better the attitude of the central government agencies towards you.					
The more people you employ, the better the attitude of the local government agencies towards you.					
The bigger your tax payment is, the better the attitude of the central government agencies towards you.					
The bigger your tax payment is, the better the attitude of the local government agencies towards you.					
The attitude of the central government officials does not depend on the contribution of the enterprise to the local development					
The attitude of local government officials does not depend on the contribution of the enterprise to the local development					

6. Do you agree or disagree with the following statements:

	Strongly Agree	Agree	Disagree	Strongly disagree	Don't know
Government policies are applied consistently by the different official agencies					
Coordination between the central and local agencies is good					
There are good policies at local level, but central agencies frustrate implementation					
There are not initiatives at local level, all policies come from the central					

7. Please Circle into score that is most appropriate with your perception about attitude of the Enterprises towards government policies, number 1 is the least role and number 7 is the best.

	Criteria	Rate			
1	Enterprises always predict changes in government policies	1 4	2 5	3 6	7
2	Enterprises usually follow up changes of government policies	1 4	2 5	3 6	7
3	Enterprises contribute ideas to improve government policies proactively	1 4	2 5	3 6	7
4	Enterprises contribute ideas to improve government policies passively when they be required	1 4	2 5	3 6	7
5	Sometime, enterprises follow up only main policies related to their business	1 4	2 5	3 6	7
6	Enterprises change their business plan after changing of government policies passively	1 4	2 5	3 6	7
7	Enterprises do not care about how government policies and their changes	1 4	2 5	3 6	7

**THANK YOU FOR YOUR TIME AND YOUR COOPERATION!**

**Appendix B1:**

**I. Attitude of government officials towards enterprises**

***Big company gets more support from central government***

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Completely agree	39	26.7	27.3	27.3
	Agree	63	43.2	44.1	71.3
	Not agree	32	21.9	22.4	93.7
	Completely not agree	2	1.4	1.4	95.1
	No idea	7	4.8	4.9	100.0
	Total	143	97.9	100.0	
Missing	System	3	2.1		
Total		146	100.0		

***Big company gets more support from local government***

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Completely agree	41	28.1	28.7	28.7
	Agree	64	43.8	44.8	73.4
	Not agree	31	21.2	21.7	95.1
	Completely not agree	1	.7	.7	95.8
	No idea	6	4.1	4.2	100.0
	Total	143	97.9	100.0	
Missing	System	3	2.1		
Total		146	100.0		

***Large number of Labor Company can get more support from central government***

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Totally agree	24	16.4	16.8	16.8
	Agree	90	61.6	62.9	79.7
	Not agree	14	9.6	9.8	89.5
	Totally not agree	3	2.1	2.1	91.6
	No idea	12	8.2	8.4	100.0
	Total	143	97.9	100.0	
Missing	System	3	2.1		
Total		146	100.0		

***Large number of labor company can get more support from local government***

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Totally agree	38	26.0	26.8	26.8
	Agree	87	59.6	61.3	88.0
	Not agree	7	4.8	4.9	93.0

	Totally not agree	4	2.7	2.8	95.8
	No idea	6	4.1	4.2	100.0
	Total	142	97.3	100.0	
Missing	System	4	2.7		
Total		146	100.0		

***High Tax Company can get more support from central go.***

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Totally agree	30	20.5	21.1	21.1
	Agree	61	41.8	43.0	64.1
	Not agree	37	25.3	26.1	90.1
	Totally not agree	4	2.7	2.8	93.0
	No idea	10	6.8	7.0	100.0
	Total	142	97.3	100.0	
Missing	System	4	2.7		
Total		146	100.0		

***High Tax Company can get more support from local government agencies.***

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Totally agree	35	24.0	24.6	24.6
	Agree	65	44.5	45.8	70.4
	Not agree	31	21.2	21.8	92.3
	Totally not agree	5	3.4	3.5	95.8
	No idea	6	4.1	4.2	100.0
	Total	142	97.3	100.0	
Missing	System	4	2.7		
Total		146	100.0		

***Government support not depend on contribution of company***

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Totally agree	15	10.3	10.5	10.5
	Totally agree	54	37.0	37.8	48.3
	Not agree	50	34.2	35.0	83.2
	Totally not agree	10	6.8	7.0	90.2
	No idea	14	9.6	9.8	100.0
	Total	143	97.9	100.0	
Missing	System	3	2.1		
Total		146	100.0		

***Local government support not depend on contribution of company***

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Totally agree	12	8.2	8.5	8.5
	Agree	51	34.9	35.9	44.4
	Not agree	52	35.6	36.6	81.0
	Totally not agree	12	8.2	8.5	89.4

	No idea	15	10.3	10.6	100.0
	Total	142	97.3	100.0	
Missing	System	4	2.7		
Total		146	100.0		

### Appendix B2.

#### *Evaluation about the role of Foreign Investment Promotion Law into SME development*

	Increase number of entrance company	Increase in labor and job of SME	Increase capital	Expand market or size of production	Increase GDP contribution	Increase business opportunity	Increase management skill	Increase competitive ability	Increase equality to other sectors	Increase image and recognition from public
<b>Enterprises</b>	5.24	4.84	5.07	5.13	4.82	5.14	4.54	4.80	4.89	4.55
<b>Government officers</b>	5.03	4.92	4.84	4.97	4.49	5.02	4.16	5.03	5.00	4.61
<b>General</b>	5.18	4.87	5.00	5.09	4.72	5.11	4.43	4.87	4.92	4.57

#### *The role of Domestic Investment Promotion LAW into SME development*

	Increase number of entrance company	Increase in labor and job of SME	Increase capital	Expand market or size of production	Increase GDP contribution	Increase business opportunity	Increase management skill	Increase competitive ability	Increase equality to other sectors	Increase image and recognition from public
<b>Enterprises</b>	4.17	3.87	4.05	4.15	4.19	4.41	4.05	4.25	4.19	3.75
<b>Government officers</b>	4.08	4.31	4.25	4.37	3.89	4.49	3.71	4.35	4.06	3.89
<b>General</b>	4.15	4.00	4.11	4.21	4.10	4.43	3.95	4.28	4.15	3.79

**Appendix B3:**

*Relationship between local and central government agencies in applying policies*

*Gov. policy has been applied consistence from central to local*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Totally agree	23	15.8	16.1	16.1
	Agree	60	41.1	42.0	58.0
	Not agree	54	37.0	37.8	95.8
	Totally not agree	5	3.4	3.5	99.3
	No idea	1	.7	.7	100.0
	Total	143	97.9	100.0	
Missing	System	3	2.1		
Total		146	100.0		

*There is good combination between central government agencies and local government agencies.*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Totally agree	22	15.1	15.4	15.4
	Agree	53	36.3	37.1	52.4
	Not agree	55	37.7	38.5	90.9
	Totally not agree	8	5.5	5.6	96.5
	No idea	5	3.4	3.5	100.0
	Total	143	97.9	100.0	
Missing	System	3	2.1		
Total		146	100.0		

*Most of policy comes from central government*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree totally	13	8.9	9.1	9.1
	Agree	63	43.2	44.1	53.1
	Not agree	43	29.5	30.1	83.2
	Totally not agree	7	4.8	4.9	88.1
	No idea	17	11.6	11.9	100.0
	Total	143	97.9	100.0	
Missing	System	3	2.1		
Total		146	100.0		

***Good policy from local government have no support from central government***

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Totally agree	11	7.5	7.7	7.7
	Agree	82	56.2	57.3	65.0
	Not agree	27	18.5	18.9	83.9
	Totally not agree	7	4.8	4.9	88.8
	No idea	16	11.0	11.2	100.0
	Total	143	97.9	100.0	