International Labour Organization

Productivity Ecosystems for Decent Work

International experiences in the development of Viet Nam's private sector

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs, Education and Research EAER
State Secretariat for Economic Affairs SECO

Norway

International experiences in the development of Viet Nam’s private sector

ISBN: 9789220436974 (print); 9789220436981 (web PDF)

DOI: https://doi.org/10.54394/00033729

Printed in Viet Nam

Acknowledgements

Within the framework of the International Labour Organization's (ILO) Productivity Ecosystems for Decent Work Programme in Viet Nam, two policy reports were developed to review the legal framework and international best practices for supporting private sector development, with a particular focus on small and medium-sized enterprises (SMEs). The findings and recommendations presented in these reports have provided technical inputs to support Vietnamese government agencies in strengthening the policy framework for enhancing the growth and competitiveness of the private sector, particularly SMEs.

This report presents a comprehensive assessment of international experiences, drawing practical lessons tailored to the Vietnamese context. The author also consulted the findings from the companion policy review report, "Review of Key Policies Supporting Private Sector Development in Viet Nam – Focusing on Small and Medium-sized Enterprises", before formulating specific policy recommendations aimed at fostering a more dynamic private sector in Viet Nam with SMEs at its core. As such, the recommendations of these two reports are interlinked and should be considered concurrently.

This report was prepared by Le Van Phuc, a senior independent consultant of the ILO. This report has benefited from the comments and feedback of Phan Thi Thai Ha, an independent economist. It has also benefited from the valuable guidance and comments provided by representatives of government agencies, including the department became the Agency for Private Enterprise and Collective Economy Development (APED) under the Ministry of Finance as well as feedback from business associations in Viet Nam. The author gratefully acknowledges the guidance and insightful contributions of senior experts from the ILO. The author also wishes to express their sincere appreciation for the technical guidance and review provided by colleagues from the ILO Country Office for Viet Nam, including Felix Weidenkaff, Gulmira Asanbaeva, and Vu Thi Thu Hang, as well as from the ILO's Enabling Environment for Sustainable Enterprises team, including Eléonore D'Achon, Sandra Yu, Na Eun Mun, and Ngo Thu Huong, throughout the preparation of this report.

Our sincere appreciation goes to the Swiss State Secretariat for Economic Affairs (SECO) and the Norwegian Agency for Development Cooperation (NORAD) for their long-standing support and financial contributions to the ILO and the Productivity Ecosystems for Decent Work programme, in particular.

While any errors or omissions remain solely our responsibility, it is through the combined efforts of these organizations and individuals that this report has come to fruition.

Contents

List of figures

List of tables

List of boxes

Abbreviations

AI	Artificial Intelligence
APED	Agency for Private Enterprise and Collective Economy Development (Viet Nam)
ASEAN	Association of Southeast Asian Nations
B2B	Business-to-business
BOI	Board of Investment
CEO	Chief Executive Officer
CGTMSE	Credit Guarantee Fund Scheme for Micro and Small Enterprise
CHAMPIONS	Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength
EDB	Economic Development Board
EDG	Enterprise Development Grant
e-ID	Electronic Identity
EU	European Union
FDI	Foreign Direct Investment
FFS	Fund of Funds for Startups
FoF	Fund of Funds
GDP	Gross Domestic Product
GLC	Government-Linked Company
GVC	Global Value Chain
IDR	Indonesian Rupiah
ILO	International Labour Organization
INR	Indian rupee
Innofund	Innovation Fund for Small Technology-based Firms
IoT	Internet of Things
IP	Intellectual Property
ITRI	Industrial Technology Research Institute
KBAN	Korea Business Angel Association
KEIS	Korea Employment Information Services
KFoF	Korea Fund of Funds
KISED	Korea Institute of Startup & Entrepreneurship Development
KODIT	Korea Technology Credit Guarantee Fund
KRW	Korean Won
KUR	Kredit Usaha Rakyat
MNC	Multi-National Company
MOST	Ministry of Science and Technology (China)
MSE	Micro and Small Enterprise
MSME	Micro, Small and Medium-sized Enterprise

MSS	Ministry of SMEs and Startups (Republic of Korea)
MUDRA	Micro Units Development and Refinance Agency (India)
OECD	Organisation for Economic Co-operation and Development
OSMEP	Office of Small and Medium Enterprises Promotion
PACT	Partnerships for Capability Transformation
PCI	Provincial Competitiveness Index
PPP	Public-Private Partnership
R&D	Research and Development
RMB	Renminbi (China)
S&T	Science and Technology
SGD	Singapore Dollar
SME	Small and Medium-sized Enterprise
SMEG	Small and Medium Enterprise Credit Guarantee Fund
THB	Thai Baht
TIPS	Tech Incubator Programme for Startups
TSMC	Taiwan Semiconductor Manufacturing Company
TWD	Taiwan Dollar
UMC	United Microelectronics Corporation
US$	United States Dollar
VC	Venture Capital
VCCI	Viet Nam Chamber of Commerce and Industry
VND	Viet Nam Dong
WTO	World Trade Organization

Executive summary

This report provides a comprehensive overview of international experiences in promoting the development of small and medium-sized enterprises (SMEs)[1] and the private sector, from which practical lessons applicable to Viet Nam are drawn.

Viet Nam's private sector, nearly exclusively comprised of SMEs (98 per cent), has become a key pillar of the country's economy contributing around half of Gross Domestic Product (GDP), accounting for 56 per cent of social investment capital, and generating employment for 82–85 per cent of the national workforce, on average. The Government of Viet Nam targets increasing this contribution to 55–58 per cent of GDP by 2030. However, achieving this goal requires addressing a series of challenges that hinder SME development, including the burden of administrative compliance costs, lack of value chain linkages, small and fragmented scale, low labour productivity, and limited access to critical resources such as finance, land, technology and markets, as well as the widespread prevalence of the informal sector.

In analysing international experiences, this report focuses on Northeast Asian countries and territories (including China, the Republic of Korea and Taiwan Province of China), Southeast Asian nations (Indonesia, Singapore and Thailand) and also examines the experiences of Estonia and India – countries with models and policies relevant to Viet Nam's development trajectory. This selection is motivated by Viet Nam's intermediary position between two distinct growth models. On one hand, it reflects the Northeast Asian development model, in which the State plays a strong, directive role in industrialization and in nurturing domestic firms to become economy-leading enterprises. On the other hand, Viet Nam also shares characteristics with Southeast Asian peers — including a high degree of economic openness, dependence on foreign direct investment (FDI), and a more facilitative government role focused on creating an enabling business environment to support growth. A common feature among these countries is the establishment of clear strategies to strengthen domestic enterprises' capabilities, effectively combining the State's strategic guidance with market mechanisms and active participation from the private sector.

The Republic of Korea's experience demonstrates the crucial role of the State in the early stages of development, particularly in supporting large conglomerates (chaebol) as growth drivers. However, in an increasingly competitive global environment, this country has shifted its policy focus towards fostering SME growth through innovation programmes such as TIPS, a public–private co-investment start-up initiative, research and development (R&D) tax incentives, and credit guarantee policies implemented by the Korea Technology Credit Guarantee Fund (KODIT) with an advanced risk assessment system. In addition, the "Export Voucher" programme, which allows enterprises to select services that best meet their international market needs, is a notable example of flexible, business-centred policy design. Republic of Korea also presents a particularly compelling example regarding government support policies aimed at boosting employment within SMEs. It has implemented a comprehensive suite of laws, regulations, and programmes that focus not only on job creation, but also on enhancing access to quality employment. A key feature is its robust mechanism for public-private coordination, exemplified by entities such as the Korea Employment Information Service (KEIS). Furthermore, this nation's experience in monitoring and reporting policy outcomes offers valuable lessons for the effective supervision and evaluation of similar support policies in other contexts.

[1] SMEs in Viet Nam are defined according to Article 5, Decree No. 80/2021/NĐ-CP issued by the government, guiding the Law on Support for SMEs. They include micro, small, and medium-sized enterprises.

Taiwan Province of China has also successfully developed a flexible, dynamic and technologically innovative SME network. Its "hidden champions" dominate niche global markets in key areas such as semiconductor equipment and industrial automation. The Industrial Technology Research Institute (ITRI) stands as a prime example of a successful applied research institute, functioning as an "outsourced R&D lab" for the SME-based economy. Through blended financing and strong market linkages, ITRI has facilitated the creation of prominent spin-off enterprises such as TSMC, the world's leading chip manufacturer, in step with transferring technology. Meanwhile, the SME Credit Guarantee Fund operates effectively with a risk-sharing mechanism between authorities and commercial banks, supported by an independent, transparent and flexible credit appraisal system.

In China, the private sector has expanded rapidly, contributing more than 60 per cent of GDP to become the main force driving innovation and employment. China's "guided development" model shows how the State supports private sector growth through administrative reforms, codified support policies, and proactive management of systemic risks in areas, such as real estate and informal finance channels. The Private Economy Promotion Law (2025) for the first time explicitly affirms the strategic role of the private sector within the economy. China has also implemented a range of administrative reforms such as merging business licenses, simplifying enterprise registration, and establishing the "Market Access Negative List" to reduce legal barriers. Furthermore, it has implemented a range of policies to facilitate SME access to international and domestic markets. To unlock international markets, it streamlined foreign exchange usage, eased immigration and customs procedures, and boosted export-import credit. For the domestic market, support was channeled through promotion and development of e-commerce platforms. Notably, the Innovation Fund for Small Technology-based Firms (Innofund) has proven effective in building credibility and leveraging substantial financial resources for high-tech SMEs, laying the groundwork for larger programmes such as "Little Giants."

Southeast Asian countries also provide practical lessons. Singapore stands out with a transparent, competitive and business-friendly environment, where a company can be established within a day, along with a simple tax system. It has also heavily invested in digital transformation through tiered digitalization support programmes (Go Digital, Start Digital, Grow Digital), as well as prioritized SME integration into global supply chains through programmes such as PACT. In Indonesia, the Omnibus Law and KUR subsidized credit programme have expanded SME access to financing. The "Making Indonesia 4.0" initiative also reflects a strong commitment to supporting SME technological innovation, offering R&D tax deductions of up to 300 per cent. Thailand has adopted coordinated policies to develop its SME ecosystem through a central coordinating body (OSMEP), a unified SME identification system (SME One ID), and a comprehensive online support platform. The Thai Government also implements the Thai SME-GP initiative, which reserves a specific share of public procurement budgets for SMEs, and the "Thailand Plus" programme to attract FDI with conditions for technology transfers and domestic supplier participation.

In addition, the report also analyzes India's experiences in developing a start-up and microfinance ecosystem, with notable programmes such as Startup India, CGTMSE and MUDRA. Estonia also comes under the spotlight as a global leader in digital governance, with nearly 99 per cent of public services digitized and its e-Residency initiative allowing global citizens to register companies entirely online.

Based on these international experiences, the report proposes specific policy recommendations to promote strong and sustainable SME and private sector growth in Viet Nam. First, institutional reforms and administrative streamlining must continue to be prioritized. This means establishing a unified enterprise identification system to enable information sharing among regulatory bodies and reducing duplication and compliance costs for businesses. Adopting a "Market Access Negative List" mechanism, as in China, could enhance transparency, give investors greater certainty and lower market entry barriers. Viet Nam should also consider applying tiered legal and compliance requirements appropriate to the size and nature of SMEs.

In terms of financial access, this report recommends establishing a national credit guarantee fund with a sustainable financing mechanism, participation from commercial banks, and a modern credit evaluation system that focuses on innovation capacity and growth potential rather than just collateral. Concurrently, a State-led "Fund of Funds" (FoF) model should be developed to attract private investment and stimulate the venture capital market. Additional financing channels such as leasing, supply chain finance and peer-to-peer lending should be expanded. For innovative enterprises, especially in high-tech sectors, access to land and infrastructure at preferential rates and through transparent processes should be prioritized to promote the development of clusters, technology incubators and innovation centres.

Enhancing technological capacity and innovation is also critical. Viet Nam should encourage enterprises to invest in R&D through substantial tax incentives, potentially up to 200–300 per cent deductible expenses. The model of applied research institutes and technology transfer centres with blended financing, as exemplified by the ITRI of Taiwan Province of China, should be considered to bridge the gap between research and commercialization. Comprehensive digital transformation support programmes, coupled with skills training and financial assistance, should be scaled-up to help SMEs improve productivity and competitiveness. In parallel, optimizing a national database on SME capabilities will provide an essential foundation for linkages with large enterprises, foreign investors and global supply chains.

To unlock SME market access, development of an "Export Voucher" programme is recommended, enabling businesses to select export support services through an online platform. Comprehensive trade promotion programmes should be optimized, including financial, foreign exchange and immigration support. Clear legal provisions on a minimum percentage of public procurement budgets allocated to SMEs (for example 30 per cent, as in China), accompanied by detailed implementation guidelines, will help ensure effective enforcement in practice.

Special attention should be given to transitioning household businesses into formal enterprises. This requires comprehensive support packages covering tax incentives, access to finance, legal advisory services, streamlined procedures and public awareness campaigns. For start-ups, Viet Nam should develop a dynamic ecosystem through incubators, innovation hubs, seed funds and the State's role as "first customer" for innovative SME products. In the longer term, Estonia's e-Residency model could be explored to attract global entrepreneurs to formally operate in Viet Nam with a virtual footprint.

Finally, promoting inclusive business is critical to enhancing the private sector's competitiveness, while ensuring disadvantaged groups also benefit from economic activities. As such, Viet Nam needs a comprehensive strategy to foster enterprises owned by women and other disadvantaged groups. Such a strategy should be implemented in a coherent manner across three main pillars. First, at the policy level, gender and inclusion criteria should be mainstreamed into macro-level policy frameworks, particularly by incorporating this objective into the government's annual resolutions on improving the business environment. Second, in terms of finance, inclusion criteria should be integrated into support mechanisms, such as applying higher credit guarantee rates and developing preferential credit packages with specific disbursement targets for these enterprise groups. Finally, to create market access and opportunities, Viet Nam could draw on Republic of Korea's experiences in introducing a preferential scoring mechanism in public procurement for SMEs owned by women, or for enterprises employing high shares of persons with disabilities or from ethnic communities.

It is important to note that the content of this report reflects the institutional, administrative and provincial structures in place prior to government restructuring that took effect from 1 March 2025 and subsequent provincial restructuring from July 2025. The consolidation of government ministries saw the Ministry of Planning and Investment merged into the Ministry of Finance and the Ministry of Labour, Invalids and Social Affairs merged with the Ministry of Home Affairs in March 2025. Administrative reforms also saw 63 provinces and cities streamlined into 34 provincial level units (28 provinces and six centrally-governed cities). In parallel, the district level layer of administration was eliminated and a two-tier system introduced to create direct links between provincial and commune/ward administrations to optimize efficiency and development.

1. Context

1.1. Contributions of SMEs and the private sector to Viet Nam's economy

The private sector is comprised of more than 940,000 formally registered enterprises operating under the Law on Enterprises, along with nearly 5.2 million household businesses. A defining feature of Viet Nam's private sector is the overwhelming predominance of micro, small and medium-sized enterprises (MSME), which account for 96.4–97.3 per cent of all active enterprises. In addition, household businesses also make significant contributions to GDP, but largely remain outside the legal framework of the Law on Enterprises, forming an "informal economy" within the private sector. The private sector remains a key pillar of Viet Nam's economy.

Table 1: Private sector in Viet Nam (2019–2024)

Indicators	2019	2020	2021	2022	2023	Estimated 2024
Number of enterprises (thousands)	647.6	660.1	694.2	735.5	810.0	940
Share of SMEs in total active enterprises (%)	96.6	96.4	96.4	97.3	97.3	97.3
Number of household businesses (millions)	5.4	5.2	5.1	5.2	5.1	5.2
Contribution to GDP (%)	50.6	50.6	50.2	50.0	50.4	51
Contribution to total investment in the economy (%)	58.3	57.3	59.4	58.0	56.1	56
Contribution to total employment (%)	80	81	82	82	82	85
Contribution to total State budget revenue (%)	30	30	30	30	30	>30

Source: Author

Currently, the private sector contributes 50–51 per cent to Viet Nam's GDP, a substantial proportion that underscores its vitality and role as a driving force of the economy. The government has set ambitious targets to raise the private sector's GDP contribution to around 55–58 per cent by 2030 and more than 60 per cent by 2045, with an average annual growth rate of 10–12 per cent, outpacing the overall growth rate.[2]

[2] Central Executive Committee. 2025. Resolution No. 68-NQ/TW (5 May 2025) by the Politburo on private economic development. https://tulieuvankien.dangcongsan.vn/he-thong-van-ban/van-ban-cua-dang/nghi-quyet-so-68-nqtw-ngay-452025-cua-bo-chinh-tri-ve-phat-trien-kinh-te-tu-nhan-11562 [Vietnamese].

However, a more detailed look at this contribution structure is necessary. Previously, official statistics recorded that the private enterprise sector registered under the Law on Enterprises contributed only a modest share of GDP (8–10 per cent).[3] In 2019, a methodological change by the General Statistics Office painted a clearer picture, with the reassessment of GDP size and inclusion of tens of thousands of previously omitted enterprises. Recent data show that the formal private enterprise sector contributes 27–28 per cent of GDP, while the household business sector accounts for 21–22 per cent.[4] This difference is not merely a technical adjustment, it reflects an important reality: a substantial portion of the private economy continues to operate as household businesses, a segment with a high degree of informality. While this sector makes significant GDP contributions, it faces notable constraints in productivity and sustainable growth potential.

The private sector is the most important driver of investment within the economy, accounting for 56 per cent of total investment capital, a share significantly higher than the State sector (28 per cent) and FDI sector (16 per cent).[5] Notably, the efficiency of private sector investment is also assessed to be superior. Analyses indicate that one unit of private sector investment capital generates substantially greater value added than capital from the public and FDI sectors. Specifically, to achieve the same absolute increase in value as 1 per cent growth in private sector investment, public investment would need to grow by 2.5 per cent, and FDI investment by 3.5 per cent.[6] This highlights that unlocking and promoting private investment is the most effective way to stimulate aggregate demand and foster economic growth.

From a social perspective, the private sector's role in job creation within Viet Nam is apparent. With nearly one million private enterprises and more than five million household businesses in operation, the private sector provides livelihoods for more than 40 million workers and employs more than 82 per cent of the national workforce,[7] making a vital contribution to social security and improving people's living standards.

Private sector development is a key factor in achieving double-digit economic growth. Looking back on global and regional economic development, many countries and territories have sustained high growth rates over long periods alongside the strong rise of their domestic private sectors. The Republic of Korea during 1960–1980, Taiwan Province of China during 1960–1980, China during 1990–2010 and more recently India has witnessed an increasing share of the private sector in total social investment, employment and exports.

The private sector, with small and medium-sized enterprises (SMEs) at its core, plays a crucial role in building competitive and highly adaptable economies. SMEs are often pioneers in filling market gaps, fostering innovation and competition, and thereby improving overall productivity and efficiency. Viet Nam's own historical experience since the Doi Moi reforms of 1986 demonstrates that it was the private sector and SMEs that swiftly unlocked market potential and ushered in a phase of rapid growth from 1990 to 2000 that peaked at 9.54 per cent in 1995.

3 Nguyen Thi Thanh Huong. 2022. "Sustainable Private Sector Development to Realize Viet Nam's COP26 Commitments." https://byvn.net/zIK1 [Vietnamese].

4 Tu Giang. 2025. "Are most private Vietnamese enterprises large or small?" https://byvn.net/rcH3

5 Le Anh. 2025. "A Golden Opportunity for Private Sector Breakthrough." https://baochinhphu.vn/thoi-diem-vang-de-khu-vuc-kinh-te-tu-nhan-but-pha-102250321182650291.htm [Vietnamese]

6 Dr. Le Duy Binh. 2025. At the workshop "Bank Capital Contributes to Promoting Private Economy" organized by Banking Times on March 21. https://byvn.net/xO6d

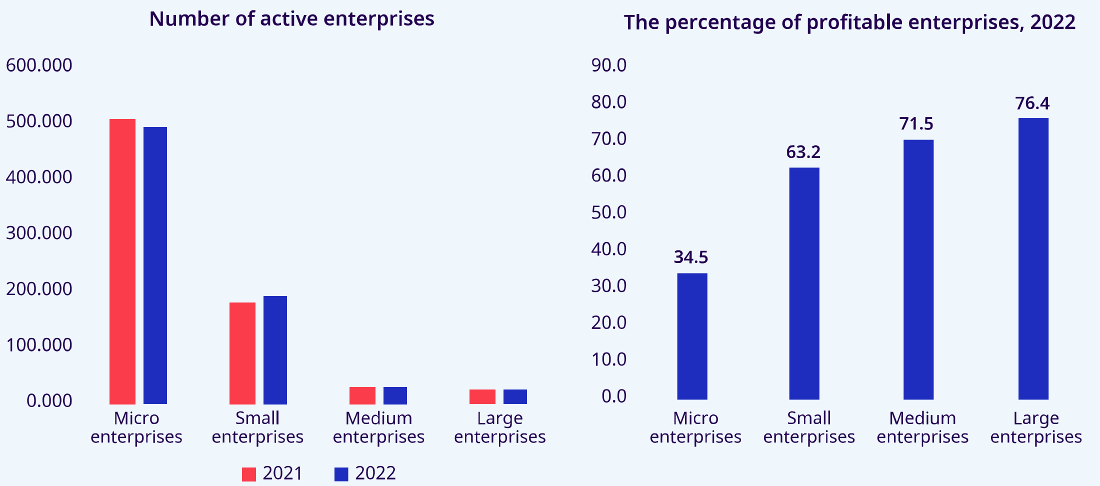
7 VNEconomy. 2025. "Party chief highlights development of private economic sector as lever for building prosperous Viet Nam." https://en.vneconomy.vn/party-chief-highlights-development-of-private-economic-sector-as-lever-for-building-prosperous-vietnam.htm

8 Ministry of Planning and Investment. 2024. Report on the Implementation of the Law on Support for Small and Medium Enterprises in 2024.

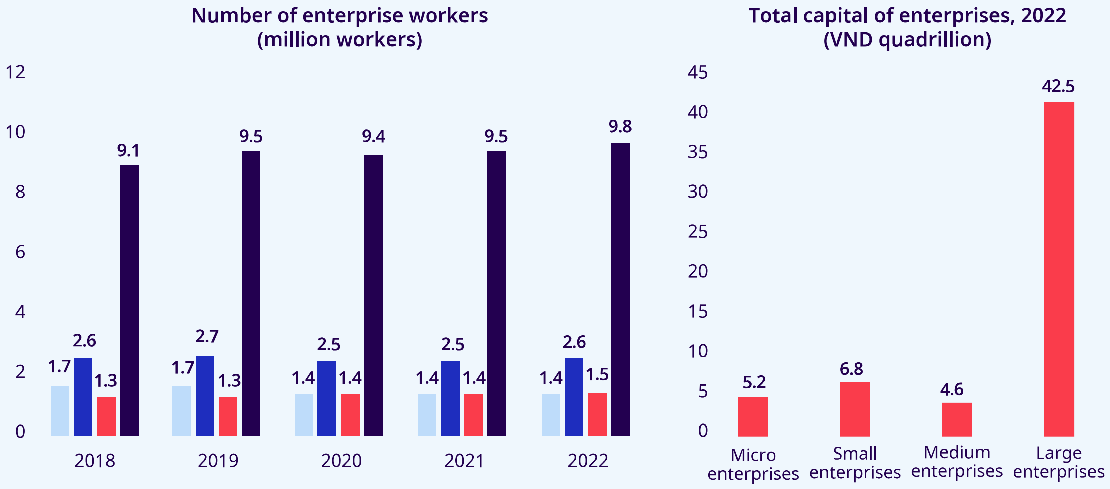
1.2. Overview of SMEs' performance

SMEs account for an overwhelming share of enterprises operating in Viet Nam. According to the General Statistics Office, by the end of 2022, SMEs represented 97.3 per cent of the 735,455 enterprises with recorded business operations, of which micro-enterprises accounted for 67.1 per cent, small enterprises (26.4 per cent) and medium-sized enterprises (3.8 per cent).[8] In terms of internal structure, the dominance of micro-enterprises illustrates a high level of fragmentation and modest average business scale, posing challenges for capacity building and scaling to higher tiers of enterprise size (Figure 1).

▶ Figure 1: Number of active enterprises and percentage of profitable enterprises by size



▶ Figure 2: Number of workers and total capital of active enterprises



Source: Author

[8] Ministry of Planning and Investment. 2024. Report on the Implementation of the Law on Support for Small and Medium Enterprises in 2024.

SMEs generate modest contributions in terms of labour and capital. While MSMEs employed 5.5 million workers as of 31 December 2022, large enterprises employed 9.8 million workers, despite representing only 2.7 per cent of total enterprises. This indicates that SMEs have yet to create significant employment opportunities. Specifically, micro-enterprises employed 1.4 million workers, up 0.2 per cent from 2021, small enterprises employed 2.6 million (up 5.0 per cent) and medium-sized enterprises employed 1.5 million (up 5.0 per cent). In terms of capital, MSMEs had a combined VND16.6 quadrillion, accounting for only 28.1 per cent of total operating capital in the enterprise sector. This contrasts with large enterprises (VND42.5 quadrillion), equivalent to 71.9 per cent of the sector's total (Figure 2).

While revenues grew, SME profits were eroded. A notable bright spot in 2022 was the robust revenue growth across all SME categories, with increases ranging from 13.3 to 18.5 per cent, reflecting the post-pandemic market recovery and enterprises' efforts to attract customers. However, in terms of profitability, a concerning reality emerged: only medium-sized enterprises recorded positive profits (VND41.1 trillion), while small and micro-enterprises suffered losses (VND5.7 trillion and VND42.1 trillion, respectively).[9] This situation highlights that the smaller the enterprise, the more challenging it is to maintain operational efficiency with thin profit margins highly vulnerable to cost fluctuations.

In 2022, the average income of workers in the SME sector improved, with increases ranging from 11.9 to 14.6 per cent.[10] However, a clear wage gap was evident, from VND7.1 million per month in micro-enterprises to VND10.9 million in medium-sized peers. This disparity directly reflects differences in labour productivity, with medium-sized enterprises recording labour productivity nearly three times higher than that of micro-enterprises.[11] Small scale is a principal factor restraining productivity as it prevents firms from fully exploiting economies of scale, thereby restricting their ability to specialize and refine operational processes. Concurrently, a small scale also impedes investment in research, technology, and innovation, factors critical for enhancing firm-level productivity.

- **The "high contribution – low status" paradox:** Although the private sector contributes more than half of Viet Nam's GDP and the majority of employment, it remains underdeveloped, particularly among formal SMEs. Most Vietnamese enterprises are micro in scale, fragmented and operate with low productivity, the weakest performers among all business types. In 2022, only 34.5 per cent of micro enterprises were profitable, far below small (63.2 per cent), medium (71.5 per cent) and large (76.4 per cent) enterprises (see figure above). A particularly alarming phenomenon is the "missing middle". Enterprises face significant difficulty in scaling up from small to medium size, resulting in a gap in the business structure. This represents a critical bottleneck, as medium-sized enterprises play an essential bridging role in being large enough to invest in technology, innovation and integration into global supply chains, yet remain sufficiently agile to adapt to changing conditions.
- **Compliance cost burden of administrative procedures.** Although the business environment has improved in recent years, the private sector and SMEs continue to face cumbersome administrative procedures, high legal compliance costs, and requested "informal payments", outside the legal framework. The 2024 Provincial Competitiveness Index (PCI) report noted signs of a resurgence in the burden of informal costs, as the share of enterprises reporting such payments increased compared to the previous year, particularly during inspections, compliance with business licensing requirements, and land-related administrative procedures. This situation is attributed to fragmented application of legal documents and regulations, in terms of regulatory quality and enforcement mechanisms. Such shortcomings create risks and uncertainty for enterprises, undermining their long-term investment and business operations.

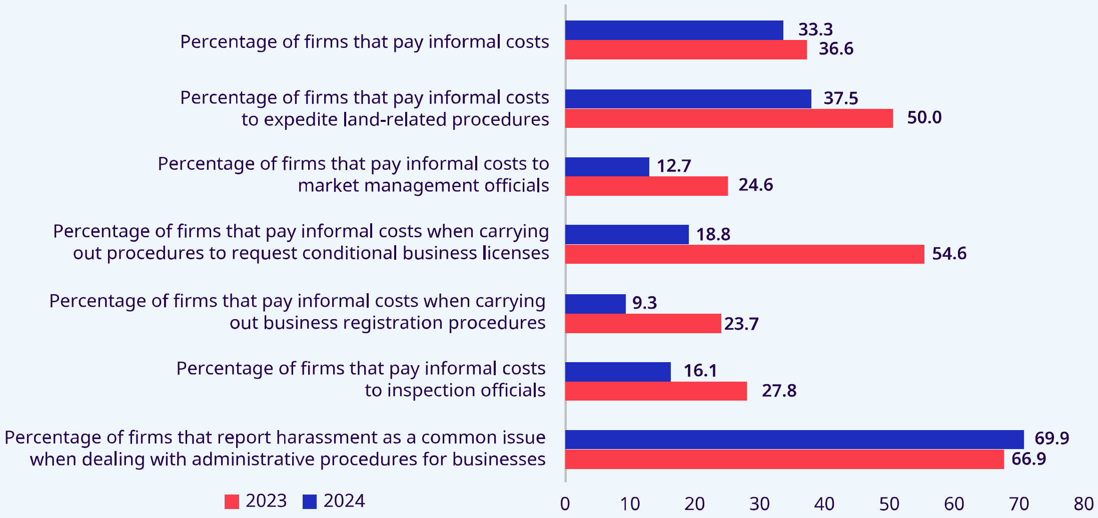
---

[9] Ministry of Planning and Investment. 2024. Viet Nam Enterprise White Book 2024.

[10] Specifically, micro-enterprises reported the lowest average monthly income at VND7.1 million, representing an increase of 14.6 per cent compared to 2021, small-sized enterprises (VND9.3 million and 12.8 per cent) and medium-sized enterprises (VND10.9 million and 11.9 per cent).

[11] General Statistics Office. In 2022, medium-sized enterprises had the highest labour efficiency at 18.33 times, small-sized enterprises (17.21 times) and micro-sized enterprises (6.94 times).

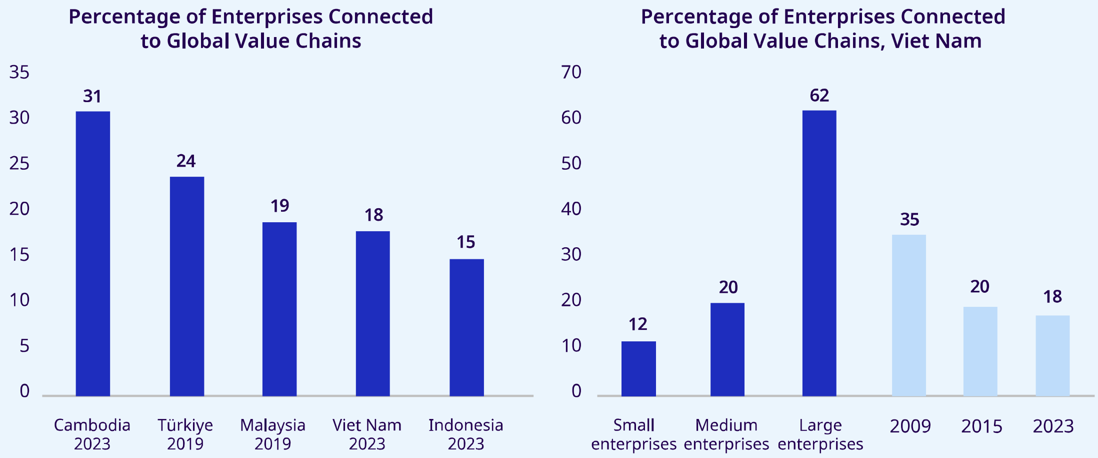
Figure 3: Survey results on informal costs for enterprises in Viet Nam (%)



Source: VCCI. 2025. Viet Nam Provincial Competitiveness Index 2024

- **Difficulties in accessing resources.** The 2024 PCI report also revealed that more than half (54 per cent) of enterprises reported difficulties in accessing bank loans making it the most significant barrier for the private sector. Although slightly down from 57 per cent in 2023, it remains considerably higher than the 41 per cent recorded in 2020. The situation is particularly severe for SMEs, which often lack sufficient collateral, standardized credit documentation and transparent banking transaction histories. Credit channels remain heavily skewed toward large and state-owned enterprises, while domestic private firms frequently face discriminatory treatment. Beyond access to capital, difficulties in securing land, advanced technology, and entering international markets also pose significant barriers.
- **Lack of linkages within value chains.** Most private enterprises in Viet Nam, particularly SMEs, have yet to establish industry clusters or build strong horizontal and vertical linkages with domestic and foreign firms. The reasons stem from both sides: domestic enterprises often lack the capacity to meet the technical standards, quality requirements and delivery timelines demanded by large and foreign-invested enterprises (FIEs), while leading enterprises, especially FIEs tend to source inputs from existing global supply networks rather than develop local suppliers. As a result, Vietnamese SMEs are often confined to the lowest value-added segments of the chain, such as assembly, packaging and auxiliary services. This inability to participate in higher value-added stages such as R&D, product design, branding and distribution has left domestic private enterprises "trapped" at the lower tiers of global value chains.

Figure 4: Global value chains have limited linkages with domestic enterprises in Viet Nam



Source: World Bank. 2025. "Viet Nam 2045: Enhancing commercial position in a changing world"

- **Challenges from informality:** The existence of more than five million household businesses largely operating in the informal sector creates an uneven playing field. While household businesses are often not legally required to fully comply with labour, environmental, and tax regulations in the same way as formal enterprises, they are also constrained by a tenuous legal status, restricted access to formal resources and fewer opportunities for sustainable growth. This situation inadvertently creates a barrier to "scaling up" and transitioning into formal enterprises.
- **Difficulty in accessing skilled labour:** The shortage of skilled workers is a strategic bottleneck constraining development of Vietnamese SMEs. According to a report by ManpowerGroup Viet Nam, more than 57 per cent of enterprises faced difficulties in recruiting talent, particularly for positions requiring advanced technical and technological skills.[12] This situation commonly forces SMEs to rely on low-skilled workers, directly reducing productivity and product quality. For firms in manufacturing and processing industries, the dearth of skilled labour limits capacity to absorb technology and innovate, leaving SMEs trapped in low value-added subcontracting activities and hindering their ability to move up the global value chain.
- **Impacts from the macroeconomic context:** In recent years, global economic uncertainty stemming from United States tariff policies, geopolitical conflicts, weakening key export markets and declines in domestic aggregate demand have adversely affected Viet Nam's private sector and SMEs. As a result, SMEs faced declining revenues, reduced orders and were forced to scale down workforces, heightening pressure on their survival and growth.

Overall, the above analysis highlights that for Viet Nam's private sector and SMEs to truly become a leading driver of growth, breakthrough policy measures are required. Such measures must not only address surface-level issues, but also tackle the deep-rooted structural bottlenecks within this sector.

[12] Link: https://mekongasean.vn/57-doanh-nghiep-dang-gap-kho-khan-trong-tuyen-dung-395.html

2. Analysis of international experiences

As a significant turning point in the private sector's development journey, 2025's adoption of Resolution No. 68-NQ/TW by the Politburo on 4 May 2025, ushered in fundamental changes in perceptions and policies to support growth in Viet Nam's private sector and SMEs.

This landmark resolution was issued in the context of Viet Nam's urgent need to enhance national competitiveness and promote sustainable and inclusive economic growth, while the private sector and particularly domestic SMEs face institutional, financial, technological and market-related barriers. To unlock their full potential as economic growth engines, they require a consistent, stable and transparent policy framework. This need is critical, as Viet Nam's deeper international integration, digital transformation and global value chain shifts demand policy innovation to support sectoral growth. Against this backdrop, it is important to draw on international experiences to underpin Resolution No. 68-NQ/TW and refine related policy to support the private sector, especially SMEs. As such, in-depth analysis of successful models from other countries can offer valuable insights to help Viet Nam select appropriate policies, models and tools to unlock resources and create a truly enabling business environment, whereby the private sector and SMEs grow and contribute commensurately to the economy.

Among global models supporting the private sector and SMEs, this report focuses on two groups of countries and territories with experiences highly relevant for Viet Nam: Northeast Asia (China, Republic of Korea, and Taiwan Province of China) and Southeast Asia (Indonesia, Singapore and Thailand), alongside examples from a few other countries.

Viet Nam's "intermediate" position between two growth models. Sitting at a strategic crossroads, Viet Nam's development model shares many similarities with Northeast Asian countries where the State plays a strong guiding role in industrialization and developing domestic enterprises into national champions that lead the economy. On the other hand, Viet Nam also shares characteristics with Southeast Asian countries, including high economic openness, a reliance on foreign direct investment (FDI) and a more facilitative government role focused on creating an enabling business environment to support growth.

Learning from both models will help Viet Nam avoid dependence on a single blueprint and develop a strategy suited to its practical conditions, a strategy that flexibly combines the State's strategic guiding role with market-oriented institutional reforms that enable the private sector and SMEs to grow through competition. This approach will help Viet Nam avoid the shortcomings of uncoordinated, broad-based support models, while also steering clear of the growth trap of overreliance on FDI without building strong domestic enterprises.

Experiences from Northeast Asian countries: State-led development and domestic enterprises topping the value chain. These nations and territories share a common feature: a successful industrialization process driven by strong national leadership. In the early stages, governments and authorities directly intervened in the market through selective protectionist policies, credit support, and strategic industry development (such as electronics, machinery, and chemicals) and especially by building large domestic conglomerates capable of leading the SME ecosystem. For example: (i) Republic of Korea developed chaebols such as Hyundai, LG and Samsung, (ii) Taiwan Province of China built a network of SMEs with technological capabilities in niche markets and (iii) China combined state-owned enterprises, private businesses and institutional reforms to cultivate domestic firms strong enough to compete globally.

These lessons are particularly relevant to Viet Nam, which currently faces a shortage of leading firms in supply chains, a weak supporting industry and low technology absorption capacity. While the State's role in providing strategic direction, investing in critical infrastructure and supporting enterprises should be maintained, it is important to avoid excessive interventions or creation of barriers to competition.

Experiences from Southeast Asian countries: business environment reforms and market integration. In contrast, these nations lean towards the model of a "state as enabler of the business environment", focusing on administrative reforms, simplification of procedures, digitization of public services, and SME support through policy tools such as credit guarantee funds, startup support programmes, workforce skills development, strengthened linkages between domestic firms and FDI, and development of microfinance markets. For example: (i) Singapore is regarded as a model in business environment reform, having built an intelligent, modern, and globally connected enterprise support ecosystem, (ii) Indonesia and Thailand both place emphasis on direct tax and financial incentives, while also promoting the digital transformation of SMEs.

Such policies could be applied in Viet Nam, especially as the government is advancing administrative reforms, digital transformations and financial inclusion for the private sector and SMEs.

2.1. Experience from Northeast Asian countries

Northeast Asian economies such as Republic of Korea, Taiwan Province of China and China, while differing in specific contexts, serve as notable examples of the State or authorities' proactive and strategic role in driving economic development, particularly in advancing the industrial sector and fostering private enterprise growth.

2.1.1 Republic of Korea

The evolution of Republic of Korea's policies toward the private sector and SMEs reflects a dynamic transition in its national development strategy. Initially, during its rapid industrialization period (1960s–1980s), policy efforts were concentrated on building large industrial conglomerates (chaebol) as the main engines of growth, while SMEs primarily acted as subcontractors and peripheral suppliers within chaebol supply chains.

However, after joining the World Trade Organization in 1995 and facing the Asian Financial Crisis in 1997, Republic of Korea underwent a strategic policy shift. Its government recognized that excessive dependence on chaebol created systemic risks and widened productivity and technology gaps. As a result, enterprise policy moved from protectionism to promoting competition, autonomy and innovation. Here are the key institutional frameworks and policy instruments.

- **Encouraging private sector participation in public procurement**

  Republic of Korea enacted an "Act on facilitating purchases of SME-manufactured products and support for market development".[13] This Act stipulates that government agencies and public organizations must give priority to procuring products and services provided by SMEs, especially technology products. For national construction projects, SMEs are given priority in signing contracts to supply raw materials. Under Article 5 of the Act, annual procurement targets are set at no less than 50 per cent of total procurement value for SME-manufactured products and no less than 15 per cent for SME-developed technology products. This ensures a stable output market for SMEs and enables them to compete with large enterprises.

  Republic of Korea supported SME entry into public procurement by modifying the contract awarding mechanism to ensure an even playing field for contracting and pricing. Specifically, SMEs can receive certification from the Ministry of SMEs and Startups (MSS) for excellent performance, technological application or recognition as an innovative enterprise, which awards them additional points in contract execution capability assessments. Notably, certification as an "Excellent Government Procurement Product" supplier not only allows the firm to contract directly with public agencies to increase market share, but also grants preferential additional points to women-owned enterprises during the selection process, thereby promoting business growth and gender equality (ILO, 2025).

[13] This Act was enacted in 2009 and the last amendment was in 2022. Link: https://elaw.klri.re.kr/eng_mobile/viewer.do?hseq=62151&type=part&key=28

- **SME support policies through job creation**

  Republic of Korea's employment support policies achieved notable results through a comprehensive strategy that combines data-driven technology platforms, effective public-private cooperation, and tailored solutions for different target groups. This approach not only addresses immediate challenges, but also contributes to building a dynamic and sustainable labour market. A breakthrough initiative is the Youth Tomorrow Filling Credit programme, introduced in 2016, which operates as a savings mechanism with joint contributions from the government, enterprises and young workers.[14] Under the scheme, if young SME employees save KRW125,000 per month for two years, the government provides an additional KRW250,000 per month and a lump-sum payment of KRW12 million at maturity.[15] Between 2018 and 2021, the programme attracted registrations from 30,000 young workers annually, with participation from more than 41,000 SMEs in total. The programme has proven effective in retaining talent within the SME sector.

The country's success in promoting employment cannot be separated from the role of the Korea Employment Information Service (KEIS).

▶ Box 1: Key functions of Work-Net[17]

Since its launch in 1998 as a public job-search portal, Work-Net has continuously improved its quality and expanded the scope of services. At present, Work-Net provides job-matching services, information on vocational training programmes, insights into occupations and skills in current and future demand, guidance on the education and training required for different jobs and industries and details on government support available for skills acquisition through various measures, including active labour market policies. The main functions of Work-Net include:

- Providing job postings aggregated through close partnerships with private entities and local governments, alongside diverse and up-to-date labour market information. Employment and recruitment data serve as the foundation for delivering high-quality job-matching services.
- Verifying job postings to ensure compliance with labour laws and regulations (minimum wage, working hours, non-discrimination). This verification process has helped Work-Net earn strong public trust.
- Delivering customized information on career development, employment and social benefits (unemployment benefits, employment incentives, pension funds).
- Linking with other public employment systems, such as vocational training networks and employment insurance information systems. This interoperability allows Work-Net to provide tailored, efficient and reliable services that meet diverse user needs.
- Building strong institutional partnerships with central and local governments as well as the private sector.

Source: Author

[14] Young workers aged between 15 and 34 years employed by SMEs and middle-standing companies for at least a year. For employees who completed their military service, the age restriction is extended by their period of service. However, the maximum age may not exceed 39 years.

[15] Republic of Korea later introduced the Youth Hope Installment Savings programme, which offered an annual return of up to 9 per cent by adding income tax exemptions on interest earnings and supplementary subsidies to the existing savings scheme. In 2023, the government launched the Youth Leapfrog Account, enabling young participants to accumulate up to KRW50 million. Under this scheme, individuals contributing up to KRW700,000 per month receive additional government subsidies alongside tax-exempt benefits, with an effective annual interest rate of up to 6 per cent. Link: https://www.mk.co.kr/en/economy/11432272

[16] Link: https://cm.asiae.co.kr/en/article/2021081113080850808

[17] Adhikari, Samik; Thelma Seoeun Choi; Yi, Soonhwa. 2022. Learning from Korea's Labor and Migration Systems: Knowledge Exchange with the Government of Nigeria. Washington, D.C. World Bank Group. http://documents.worldbank.org/curated/en/099821106212239179

By providing open data and technology platforms, KEIS has built an ecosystem in which private employment service providers, universities and training centres can actively participate. Its core functions include operating the public employment portal Work-Net, producing medium and long-term employment forecasts, evaluating and monitoring employment policies and managing national labour market information networks. These initiatives have significantly shortened job-matching times, while equipping policymakers with real-time data to assess and adjust policies more effectively. A notable feature of Work-Net is its ability to verify recruitment postings in line with labour laws and regulations, such as minimum wage, working hours, non-discrimination and inclusiveness. This verification process has strengthened trust among users, including women and vulnerable groups, and supported workers in securing quality jobs.

Ensuring favourable access to land and infrastructure for the private sector. Specifically, Republic of Korea launched the Pangyo Techno Valley project, located in the city of Pangyo in Gyeonggi province, near the capital Seoul, dubbed the "Silicon Valley of Korea." Technology companies headquartered there benefit from state-of-the-art infrastructure, high-speed connectivity and an ideal working environment in proximity to research institutes and universities. In addition, high-tech enterprises and strategic investment projects may be granted corporate income tax exemptions for the first three to five years, followed by a 50 per cent reduction for the next two years. Businesses are also given the opportunity to purchase or lease land in the Techno Valley at prices significantly lower than market rates in neighbouring areas, accompanied by a stipulation that companies receiving preferential land must not transfer or resell it within 10 years, thereby eliminating incentives for real estate speculation.[18] By 2023, a total of 1,666 technology companies had established headquarters in the complex, generating combined revenues exceeding KRW167 trillion (US$125 billion) annually surpassing the total GDP of several countries and creating tens of thousands of high-quality jobs.

Tech Incubator Programme for Startups (TIPS) Initiative

This is a public private matching fund programme designed to leverage private sector partners in selecting and supporting innovative technology startups. To participate in the programme, startups must meet certain eligibility criteria and secure an initial investment of KRW100 million (US$77,000) from a designated private sector partner of TIPS. Following this initial investment, the TIPS partner nominates the startup for the programme, after which the programme evaluates the proposal and makes a final decision. This selection process allows private investors to take the lead in making investment decisions, knowing they can leverage public funds to mitigate portfolio risks. Since its launch, TIPS has become one of Republic of Korea's flagship government programmes for entrepreneurs. Starting in 2013 with five partners and 15 startups, by 2022 it had grown to more than 100 partners and 500 startups. The MSS increased the TIPS budget from KRW26.8 billion (US$20.8 million) in 2014 to KRW293.4 billion (US$227.4 million) in 2022, rising from 0.008 to 0.043 percent of total government spending (Aridi et al, 2024).

The three main stakeholders in the TIPS programme are TIPS partners, TIPS beneficiaries (startup SMEs), and supervisory and implementing government agencies. The specific roles of each stakeholder are as follows:

- **TIPS partners:** Are private sector entities such as angel investors, startup accelerators, venture capital funds, large corporations and other organizations certified by the government as qualified to support TIPS beneficiaries. TIPS partners are responsible for the initial selection of high-potential technology startups and nominating the startups in which they are investing to the TIPS managing agency, the Korea Business Angel Association (KBAN). Each year, the government designates TIPS partners primarily based on investment performance, technological expertise, and the ability to provide the necessary financial resources to invest in startups. As of October 2023, there were 111 registered TIPS partners.

[18] Link: https://www.investkorea.org/ik-en/bbs/i-5045/detail.do?ntt_sn=490755

- **TIPS beneficiaries (startup SMEs):** To qualify for registration under TIPS, startups must have received an initial investment from a TIPS partner (KRW100 million, or US$77,000), have been established for less than seven years, employ at least two staff (including the CEO), and have recorded annual revenue of no more than KRW2 billion (US$1.55 million) in the preceding year. To ensure accountability, founders must hold more than 60 per cent of the company's shares, while private investors must hold less than 30 per cent.
- **Supervisory and implementing government agencies:** The MSS oversees the TIPS programme. The KBAN serves as the TIPS managing agency, responsible for programme administration, while the Korea Institute of Startup & Entrepreneurship Development (KISED) acts as the specialized TIPS agency, facilitating connections between startups and additional private investors, and providing supplementary support. Designated to assist in the government's programme implementation, KBAN and KISED play a critical role in the beneficiary selection process.

Credit Guarantee Model

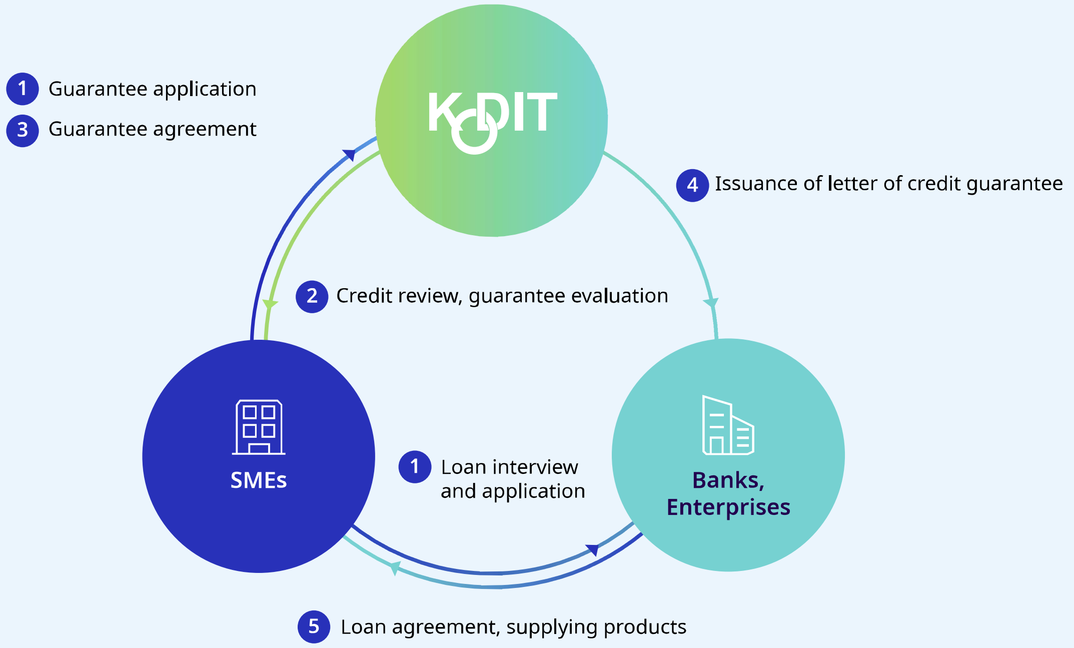
The Korea Technology Credit Guarantee Fund (KODIT), established in 1976, is one of the most successful credit guarantee models in the world. Its primary objective is to address a common "market failure", whereby SMEs face difficulties in accessing formal financing due to a lack of collateral, information asymmetry, and high transaction costs. KODIT's mission is to serve as a trusted partner for SMEs, enhance their access to finance and function as a financial safety net for businesses during times of crisis. The success of KODIT stems from several core factors as follows:

- **Sustainable capital and financial structure:** KODIT's operating capital is not solely reliant on the state budget, but is sourced from three main channels: (i) government contributions (45 per cent) that serve as the initial capital and periodically replenished, (ii) contributions from financial institutions (50 per cent), as commercial banks are also required to contribute to the fund, a reasonable mechanism given that they directly benefit from reduced lending risks and (iii) revenue from guarantee fees and other sources (5 per cent), as fees collected from beneficiary enterprises form an important income stream to offset operational costs and potential losses.

  A rigorous guarantee process with sophisticated credit evaluation and risk management systems, KODIT's guarantee process generally follows these steps:

  - Application submission by enterprises: SMEs seeking loans submit a guarantee application directly to KODIT.
  - Credit assessment and rating by KODIT: This is the most critical and distinctive step. KODIT does not rely solely on tangible assets when evaluating SMEs. Instead, it has developed a proprietary credit rating system leveraging big data and artificial intelligence to conduct a comprehensive assessment of the enterprise, including: technological capabilities and market potential of the product/service, management capacity and experience of the leadership team, financial health and cash flow (historical and projected), credit history and other non-financial factors.
  - Issuance of a guarantee certificate: Based on the assessment results, if the SME qualifies, KODIT issues a guarantee certificate to the bank. The certificate specifies the guarantee amount and guarantee fee payable by the enterprise (with the fee level varying according to the enterprise's risk profile).
  - Loan disbursement by the bank: Upon receiving the guarantee certificate from KODIT, the bank's lending risk is substantially reduced, enabling it to confidently disburse the loan to the SME.
  - KODIT fulfills its obligation (if applicable): KODIT operates early warning systems such as CeRAS (Credit Risk Alarm System) to continuously monitor the health of guaranteed enterprises and detect early signs of deterioration, thereby enabling timely intervention measures. In cases where the SME is unable to repay the loan, KODIT will pay the guaranteed portion of the debt to the bank on behalf of the enterprise. Thereafter, KODIT will work with the enterprise to recover this amount.

Figure 5: Credit Guarantee Model of Republic of Korea



Source: KODIT. 2022

Comparison between KODIT (Republic of Korea) and SME Credit Guarantee Fund (Viet Nam)

The KODIT and the SME Credit Guarantee Fund system in Viet Nam are both mechanisms established with the common objective of alleviating financing difficulties for businesses. However, the two models differ fundamentally in terms of organizational structure, scale, scope of operations and actual effectiveness. KODIT in Republic of Korea is regarded as one of the most successful credit guarantee fund models in the world and serves as a key pillar in the country's SME development policy and overall economic growth strategy. In contrast, despite some notable steps, Viet Nam's fund system faces multiple challenges.

Table 2: Comparison between KODIT (Republic of Korea) and SME Credit Guarantee Fund (Viet Nam)

Criteria	KODIT	SME Credit Guarantee Fund
Organizational model	Centralized: A single nationwide organization operating under government supervision, with an extensive branch network.	Decentralized: Individual funds in each province/city, managed by the provincial People's Committee.
History and scale	Long history (since 1976), large-scale (capital and outstanding guarantees worth tens of billions of US$).	Relatively new, small scale and uneven across localities.
Capital sources	Diverse and abundant: government, contributions from financial institutions, large enterprises.	Primarily from local budgets, with limited resources.
Scope and services	Comprehensive: credit guarantees, management consulting, technology appraisal and startup support.	Mainly credit guarantees, other non-financial support services remain limited.

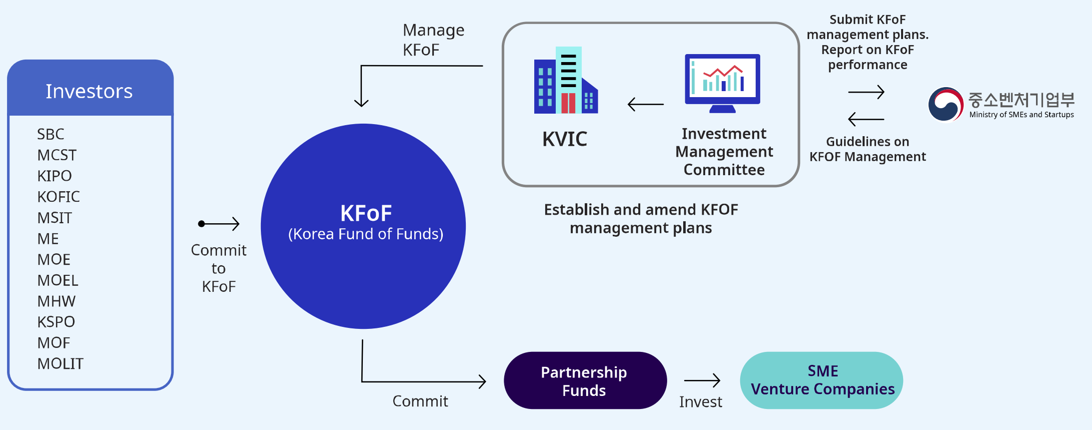
Criteria	KODIT	SME Credit Guarantee Fund
Guarantee Fees	Risk-based and flexible: standard fee schedule, typically 1 per cent per year. Fees vary depending on credit rating, enterprise risk level, and preferential policies for specific sectors/industries.	Not uniform: set by each locality with no common standard. Some areas charge 0.5 per cent per year. Significant differences exist between provinces.
Information integration	High and centralized: system deeply connected with government agencies (tax, insurance), the entire financial system, and national credit information centers. Data is aggregated and analyzed using big data to support the credit rating model.	Low and fragmented: operational data isolated within each local fund. No unified national data platform exists across funds. Connections with the National Credit Information Centre (CIC) and other agencies are sporadic, and automation is limited.
Assessment system	Professional and advanced: uses a complex internal credit rating system based on big data and modern risk forecasting models.	Simple: relies heavily on commercial banks' evaluations, with no unified or standardized credit rating system across funds.

Source: Author

State-led venture capital model

Recognizing the nascent stage of the private venture capital (VC) market, the Korean Government intervened in an innovative way. Instead of investing directly, it established "Funds of Funds", with the most notable example being the Korea Fund of Funds (KFoF) in 2005. These funds, partially funded by the government, serve as anchor investors that invest in VC funds managed by the private sector. This model has succeeded in attracting private capital, reducing risks for investors, and rapidly creating a vibrant VC ecosystem. However, one limitation is strict regulations on mandatory investment ratios can reduce the flexibility and autonomy of private fund managers.

Figure 6: Operating model of the Korea Fund of Funds[19]



Source: Author

[19] Link: https://www.kvic.or.kr/en/business/business1_1

- **Capital mobilization from the government:** The initial investors, namely Korean ministries and government agencies, jointly contribute capital to establish the KFoF. This list of investors includes: the Ministry of Culture, Sports and Tourism, Ministry of Science and ICT, Ministry of Employment and Labour, Ministry of Health and Welfare, among others.

  The capital mobilization mechanism for KFoF is systematically structured not as a single consolidated budget, but organized into specialized accounts tied to policy objectives of each participating government body. The core principle of this mechanism is that each ministry or agency, upon contributing capital, sets up a separate "account" within the overall structure of the KFoF. Each of these accounts comes with a clear investment mandate, stipulating that the funds must only be used to promote development of a specific industry or sector under that agency's jurisdiction.

- **Management and supervision:** The KFoF is entrusted to a professional organization, the Korea Venture Investment Corp is a fund management company established by the government in 2005 that forms an Investment Management Committee to develop detailed operational plans. It is responsible for submitting these plans, along with performance reports on the KFoF, to the Ministry of SMEs and Startups. In turn, the ministry issues policy guidelines and directions for fund management.

- **Capital injection into partner/sub-funds:** This step illustrates the true nature of a "Fund of Funds." The KFoF does not invest directly in startups. Instead, it commits capital to partner funds that are VC funds managed by private fund management companies.

- **Investment in enterprises:** After receiving capital from KFoF and raising additional funds from other private sources, these partner funds will carry out the final step: identifying, assessing, and directly investing in SMEs or venture startups.

Export support and market access

One notable initiative is the "Export Voucher" programme, launched in 2017. Instead of providing uniform support services, this programme allocates a budget to SMEs in the form of a "voucher", allowing them to freely choose service providers from market research, legal consulting and marketing to logistics from a government-approved list of more than 7,200 services, selecting those best suited to their specific needs. The number of SMEs participating in the programme has grown rapidly, from 354 companies in 2017 to more than 1,200 in recent years.

At the core of the programme is the provision of an electronic voucher with a set budget limit. The voucher can only be used to pay for pre-approved export-related services to prevent misuse. The government funds a large portion of the cost (70–90 per cent), while the remainder is covered by the enterprise itself. This mechanism ensures that businesses remain committed and responsible in using the budget. The entire programme is operated through an online platform to ensure transparency and efficiency.

- **Step 1: Selection of enterprises**

  SMEs with export potential submit applications to participate in the programme. The government, through the MSS and implementing agencies such as the Korea Trade-Investment Promotion Agency, evaluates and selects candidates based on criteria such as production capacity, export readiness and the product's potential in international markets.

- **Step 2: Voucher issuance**

  Selected companies are provided with an account on the platform and an electronic voucher with an approved budget limit.

- **Step 3: Selection of enterprises**

  Enterprise's choice of services and providers: The platform offers a list of dozens of different export-support services, categorized into groups such as design/ branding, marketing/ promotion, consulting/ legal, certification/ intellectual property, and transportation/ logistics. These services are provided by thousands of private companies as service providers that are vetted and certified by the government. Businesses gain full access to the platform, allowing them to search, compare and choose the most suitable provider for their needs, then sign contracts and use the voucher for payment.

- **Step 4: Settlement and supervision**

  After the service is completed, both the enterprise and provider confirm it in the system. The government pays the subsidized portion of the voucher directly to the provider, while the business only covers its matching share. The entire process is monitored, and a supplier quality evaluation system is in place after each service is delivered.

This export voucher initiative was successful because it represents a modern public policy model that harmoniously combines government orientation with market-driven operations. This initiative is enterprise-centered: instead of designing identical support packages for all businesses, it allows each company to choose its own tailored support package. It also provides a stable customer base (SMEs holding vouchers), enabling thousands of private service providers to grow, specialize and enhance their competitiveness. This creates a synergistic development cycle. In addition, operating through a digital platform ensures transparency, prevents corruption, reduces administrative procedures, and saves time and costs for government agencies and businesses.

▶ Criteria for selecting enterprises to participate in Republic of Korea's export voucher initiative

The Export Voucher Programme operates under a well-structured framework with its budget fully funded by the central government. From a policy perspective, the programme is jointly led by two key ministries: the MSS, responsible for overall planning and budget allocation, and the Ministry of Trade, Industry and Energy, which sets directions for strategic export industries and markets. Direct implementation and day-to-day operations are entrusted to two main executing agencies: the Korea Trade-Investment Promotion Agency and the Korea SMEs and Startups Agency. The former manages the programme's online portal, application screening, and supplier network, while the latter focuses on coordination and the initial-stage assessment of enterprise capabilities. Each year, the government allocates a specific budget to these two ministries for the execution of this programme, considering it a strategic investment to stimulate economic growth.

Table 3: Criteria for selecting enterprises to participate in Republic of Korea's export voucher initiative

Evaluation category	Detailed criteria	Key content & requirements
Part 1: Quantitative Evaluation **(Based on actual data)**	1.1. Export capacity	• Direct export volume: Based on customs data from the most recent fiscal year. This is a key indicator for classifying groups of enterprises[20] • Export growth rate: Comparison of export volumes between the two most recent years
	1.2. General business capacity	• Financial health: Assessed based on financial statements (revenue, profit, debt ratio) • Workforce size and quality: Based on the number of employees enrolled in social insurance • Funding history: Having previously received investment from VC funds is considered an advantage
Part 2: Qualitative Assessment **(Based on the business plan)**	2.1. Business readiness and capacity	• Product/service competitiveness: Does the product have patents or international certifications (ISO, CE, FDA)? Does the technology have any distinctive or superior features? • Team capability and CEO's determination: Does the company have dedicated export personnel? What is the leadership's experience and vision for the international market?
	2.2. Feasibility and specificity of the plan	• Target market analysis: How detailed and in-depth is the market research (competitors, distribution channels, barriers)? • Market entry strategy: Are the marketing, sales, and product positioning plans reasonable, creative, and aligned with the target market? • Voucher utilization plan: Is the list of intended services logical, consistent and directly serving the proposed strategy? For example, a company aiming to enter the U.S. market would be highly evaluated if its plan includes applying for FDA certification and trademark registration in the U.S
	2.3. Expected outcomes	• Export goals: Are the targets for revenue, market share, specific, measurable, and achievable? • Spillover impact: Does the plan promise to create additional jobs or contribute to the local or national economy?
Part 3: Priority Bonus Points **(Incentive policy)**	3.1. Enterprises in strategic sectors	• New Technologies: AI, Big Data, semiconductors, biomedical, green energy • Related to K-Culture: Digital content, cosmetics, fashion and food
	3.2. Enterprises with social contributions	• Women-owned enterprises • Enterprises creating many jobs for young people • Enterprises with certifications on Environmental, Social, and Governance (ESG)

Source: Author

[20] According to exportvoucher.com, enterprises are classified into the following groups: (i) domestic enterprises (Naesu): export turnover of less than US$1,000, (ii) new enterprises (Chobo): from US$1,000 to less than US$100,000, (iii) potential enterprises (Yumang): from US$100,000 to less than US$1,000,000, (iv) growth enterprises (Seongjang): from US$1,000,000 to less than US$5,000,000 and (v) strong enterprises (Gangso): US$5,000,000 or more.

Promoting R&D for SME

Republic of Korea recognizes that technological innovation is a core factor enabling the private sector to compete in the global market. Accordingly, the country is among the world's leaders in R&D investment, with its R&D expenditure-to-GDP ratio ranking among the highest globally. According to the Federation of Korean Industries, the country's R&D expenditure reached KRW 93.1 trillion (US$75.4 billion) in 2020, accounting for 4.81 per cent of GDP,[21] the second highest among OECD member countries, after Israel. Within this, corporate sector R&D spending dominates, accounting for 79.2 per cent of the nation's total R&D expenditure, equivalent to KRW94.29 trillion. One notable policy is Republic of Korea's generous R&D tax credit scheme: SMEs can deduct a quarter of eligible R&D costs from their taxes with no cap, meaning SMEs can claim the credit for their entire qualified R&D expenditure. In contrast, large enterprises can deduct up to 2 per cent. Moreover, SMEs operating in any of the 12 sectors under the country's Growth and Basic Technology Programme – such as future mobility, next generation electronics, energy and environment – are eligible for an even higher R&D tax deduction rate of 30–40 per cent. This level of support places Republic of Korea among the most SME-friendly countries, offering benefits well above the OECD median (OECD, 2023). Overall, these policies reflect the government's strong commitment to fostering innovation within the SME sector.

2.1.2 Taiwan Province of China

Unlike Republic of Korea, Taiwan Province of China's economic miracle was not built on giant conglomerates, but on the strength of a dense network of highly agile and dynamic SMEs.[22] SMEs account for 98 per cent of all enterprises and generate more than 80 per cent of employment,[23] making them the true backbone of the economy. Taiwanese SMEs are characterized by a strong entrepreneurial spirit, a willingness to take risks, and a constant capacity for innovation to adapt to market changes.

"Hidden champions"

Taiwan Province of China's competitive strength does not come from globally famous consumer brands, but from thousands of SMEs that are "hidden champions." These are companies that lead the world in narrow niche markets, often supplying components, machinery, or B2B services. They share common traits: a deep focus on a specific field and continuous R&D investment to maintain technological advantages. This model similar to Germany's *Mittelstand* [24] and is seen as more compatible with Taiwan Province of China's economic structure and business culture than Republic of Korea's *chaebol* model.

Companies are considered hidden champions when they are smaller in scale and focus on a much narrower range of products compared to large corporations, yet hold a high global market share or even dominate their product segments. However, public awareness of these companies is often low. Therefore, they can be classified as "hidden champions", a term defined by Simon (2009),[25] to describe companies that: (1) possess a high global market share in complex manufacturing sectors, (2) are not large in size and (3) are not widely recognized by the general public.

[21] According to World Bank data, Viet Nam's R&D expenditure accounted for 0.42 per cent of GDP in 2021.

[22] Taiwan Province of China's SME classification criteria was significantly revised and simplified. Instead of the previous complex division into two sector-specific categories, the new standard applies a uniform rule across all industries. Under this rule, an enterprise is classified as 'small' if it has capital of no more than TWD100 million or employs no more than five regular workers. An enterprise is classified as 'medium-sized' if it employs no more than 200 regular workers. Link: https://law.moj.gov.tw/Eng/LawClass/LawAll.aspx?PCode=J0140003

[23] Wang, Jiann-Chyuan. 2022. "The White Paper on Small and Medium Enterprises in Taiwan." https://www.sme.gov.tw/article-en-2819-9515

[24] Germany's SMEs, also known as the 'Mittelstand', are the country's strongest driver of innovation and technology and are renowned across the world.

[25] Hermann Simon. 2009. "Hidden Champions: Audit and Strategy Development," Springer Books in Hidden Champions of the Twenty-First Century, Chapter 11, pages 315-349, Springer. Doi: 10.1007/978-0-387-98147-5_11

▶ Box 2: Taiwan Province of China's hidden champions

- Hiwin Technologies: It is one of the world's top three manufacturers in the field of precision motion control components, specifically ball screws and linear guideways. Its products are core, indispensable parts inside high-precision industrial machinery such as CNC machine tools, semiconductor manufacturing equipment and industrial robots. Although end consumers never see the Hiwin brand name, leading global machinery manufacturers such as ASML and Applied Materials are among its clients.
- Eclat Textile: It is a strategic supplier of high-performance functional fabrics for leading global sportswear brands such as Nike, Lululemon and Under Armour. It does not sell clothing directly to consumers, but its stretchable, breathable and specialty fabrics are a decisive factor in the quality of those premium products. Eclat is regarded as a prime example of Taiwan Province of China's "hidden champion" status in the global textile industry.
- Advantech: It focuses on developing IoT (Internet of Things) products and solutions, embedded computers, industrial automation and industrial computing solutions. The company holds 42 per cent of the global industrial computer market share and its products and services are widely applied across sectors such as retail, healthcare, energy management, transportation, control and monitoring systems, and other industrial fields. Its products are used in smart factories, transportation systems, medical devices and industrial automation, playing a crucial role in complex systems.

Source: Author

Backbone Enterprises Development Programme

Approved in 2012 by Taiwan Province of China's Ministry of Economic Affairs, the programme's overarching goal is to identify SMEs with high potential, possessing core technologies and operating in niche markets and support them to become world-leading enterprises in their areas of expertise. Taiwanese authorities aim to turn these companies into the "backbone" of the economy, reducing reliance on large conglomerates and creating a solid economic foundation. The programme's objectives are set within a measurable three-year timeframe: (i) selective support of more than 150 SMEs, (ii) recognition of 30 outstanding enterprises as elite backbone companies, (iii) promotion of total related investment reaching TWD100 billion and (iv) creation of 10,000 new jobs.[26] The programme is implemented through a three-phase strategy:

- **Platform development:** Establish the Backbone Enterprise Promotion Office as a dedicated unit to drive development of backbone enterprises. The office is responsible for publicizing information, receiving applications, organizing expert panels to review and select enterprises deserving of support or awards. In addition, the office proactively connects selected enterprises with government support systems. For example, if an enterprise requires R&D support, the office will connect it with the ITRI. If capital is needed, it will be referred to the Small and Medium Enterprise Credit Guarantee Fund (SMEG).
- **Growth support:** This stage focuses on nurturing high-potential SMEs. Each year, around 50 enterprises are selected to receive targeted support. These enterprises are provided with tailored "custom-made" services in talent development, technology, intellectual property, and brand marketing. To be selected, enterprises must: possess key, unique and irreplaceable skills or technologies in their field, have the potential to independently develop their own brand to expand internationally and be capable of building a global marketing channel network.

[26] Link: https://english.ey.gov.tw/Page/61BF20C3E89B856/b3b90862-a5e2-42d3-8f3c-696185c8bffd

- **Elite recognition:** Each year, around 10 top backbone enterprises are selected to receive the "Outstanding Backbone Enterprise Award." The goal is to honour and turn them into role models for other companies in the industry to follow. Selection criteria for elite backbone enterprises include: annual revenue under TWD20 billion or fewer than 2,000 employees, more than 10 years of operation, possession of key, unique and irreplaceable skills or technologies in specific fields, continuous investment in R&D and innovation, international marketing capabilities based on their own brand and ownership of a global marketing network and operations or production primarily located in Taiwan Province of China.

Industrial Technology Research Institute (ITRI)

Taiwan Province of China's success in the semiconductor industry largely stems from its strong support for R&D, alongside policies for industry clustering and human resources development. Recognizing that MSMEs often face capital constraints in investing in R&D, especially in the highly novel and high-risk semiconductor sector, Taiwanese authorities took the lead in addressing this market failure, with the centerpiece being establishment of the ITRI in 1973, fully funded by the authorities at inception. ITRI is a classic example of the role an applied research institute can play in driving industrialization. It not only undertakes contract research for enterprises, it also proactively initiates strategic R&D projects to stay ahead of technological trends. Once successful, ITRI transfers the developed technology to existing MSMEs or spins it off into new technology companies. Two global semiconductor giants, TSMC and UMC, are both spin-offs from ITRI. The institute has played a decisive role in the creation and growth of Taiwan Province of China's electronics and semiconductor industries.

- **ITRI operates as a non-profit research institute:** With a workforce of 6,000–6,500 researchers and engineers, its annual operating budget of US$500 million comes from a unique mixed funding model, one of the key factors behind its success and sustainability. About 54–67 per cent of ITRI's funding is provided by authorities, mainly through competitive technology development programmes, while the remaining 33–46 per cent is from industrial research contracts, technology transfers and other technical services.

This mixed funding model creates a built-in "balance and control" mechanism within ITRI's financial structure. On one hand, stable funding allows ITRI to pursue long-term, high-risk, and nationally strategic research projects – projects that no private company would dare to invest in, such as the VLSI project that led to creation of TSMC. On the other hand, funding from industry contracts forces ITRI to remain closely tied to the market, address real-world business problems, and ensure its technologies are highly applicable. This balance helps ITRI avoid two common pitfalls of public research institutes: becoming an academic "ivory tower" detached from reality or merely a service provider focused on short-term commercial gains. ITRI functions as a massive, multi-purpose "outsourced R&D department" for Taiwan Province of China's entire MSME economy. Its services are tailored to address the specific weaknesses of MSMEs and include: (i) contract research, as an MSME can commission ITRI to solve specific technical problems or develop new products, (ii) technical services to offer product testing, certification, equipment calibration and technology assessments, (iii) pilot production and process improvements to help firms test product feasibility before mass production and optimize existing manufacturing processes and (iv) technology transfer and intellectual property services, from ready-to-use technologies developed at ITRI to businesses and advising on intellectual property strategy.

Support of the Taiwan SME Credit Guarantee Fund (Taiwan SMEG)

Established under the Ministry of Finance in 1974 and later transferred to the Ministry of Economic Affairs in 2003, SMEG employs more than 300 administrative staff and is capable of providing both direct and indirect loan guarantees to SMEs, pursuing three main objectives. First, SMEG seeks to address the collateral shortage commonly faced by SMEs when applying for loans. By offering direct and indirect loan guarantees, SMEG also enhances the overall attractiveness of SMEs as potential borrowers for banks. Finally, SMEG aims to leverage its experience and technical capacity to improve the effectiveness of SME-implemented projects.

SMEs can apply for indirect, direct or package guarantees. In most cases, SMEs apply for indirect guarantees through one of the 3,000 branches of 40 financial institutions contracted with SMEG, including public and private banks. Certain selected SMEs deemed to have "significant R&D, operational, or market development potential" may apply for direct guarantees from SMEG. Successful applicants then present the direct guarantee to financial institutions to support their loan applications. Lastly, SMEs in specific sectors (green energy, innovation) supported by the government may apply for package guarantees through a "dedicated window" of relevant government agencies. A "guarantee fee" is typically charged annually at a rate from 0.3 to 1.75 per cent of the guaranteed loan amount.

The success of SMEG stems from its professional risk management capacity and sustainable financial structure. First, the risk-sharing mechanism is a key factor in ensuring the fund's effective operation. SMEG typically guarantees 80–90 per cent of a loan, leaving the remainder as the portion of risk borne by the lending bank. This mechanism prevents "moral hazard" on the part of banks. Since they still bear part of the risk, banks are motivated to carefully assess loan applications rather than shift all risky loans onto SMEG. In addition, SMEG does not rely solely on banks' assessments as it has developed its own high-quality credit scoring and rating system to gain an independent and comprehensive view of a company's true financial health. Second, to survive and operate effectively for decades, SMEG has been built on a solid financial foundation from multiple sources: (i) capital contributions from authorities, as it was established with substantial capital funded from authorities and state-owned banks to serve as the "seed capital" and foundation for the fund's guarantee capacity, (ii) mandatory contributions from banks, as private financial institutions participating in the system and benefiting from reduced risk are also required to contribute to the fund. This creates a financial cycle in which beneficiaries are also responsible for sustaining the system and (iii) self-sustainability through fees and investments, as income from guarantee fees and returns from investing idle capital help SMEG cover operating costs and offset losses from defaults.

2.1.3 China

China's development model has distinctive characteristics, reflecting a complex combination of market mechanisms and strong, sometimes direct, State guidance and intervention. Since the economic reforms of the late 1970s, China's private sector has experienced explosive growth, becoming the main driver of the economy to contribute more than 60 per cent of GDP, 70 per cent of technological innovation and 80 per cent of urban employment. By September 2024, China had 55 million registered private enterprises, accounting for more than 92 per cent of all businesses.[27]

- **The private economy's role and position have made historic progress from having virtually no presence to an important component of the socialist market economy:** Regarding the initial policy stance towards the private economy, the Communist Party of China Central Committee's Document No. 5 (January 1987) clearly set out a guiding principle: "allow to exist, strengthen management, maximize benefits and minimize drawbacks, gradually guide development." Successive Party Congresses (13th to 20th) emphasized the positive role of the private sector in job creation, meeting people's needs, promoting production, driving technological innovation and improving the quality of growth. In particular, in the context of global turbulence after the 2008 financial crisis, China has increasingly valued the private sector as a driving force for transforming the growth model, encouraging fair competition, protecting property rights and providing strong institutional, tax, financial and business environment support. At the same time, China has maintained strict control over systemic risks in areas such as real estate, informal finance and large technology conglomerates to ensure the long-term stability of the economy. This "guided development with control" model has allowed the country to sustain high growth rates, while safeguarding macroeconomic stability. General Secretary Xi Jinping has repeatedly affirmed that the private economy is a vital force in realizing the nation's rejuvenation dream. These deep reforms have turned the private sector into a true pillar of China's modern economy.

[27] Link: https://www.chinadaily.com.cn/a/202503/10/WS67ce3beba310c240449d9c27_3.html

- **The rise of China's economy has been forcefully driven by strategic policies that promote development of the private sector, especially large conglomerates:**[28] The rapid growth of China's private sector in recent years has led to the emergence of massive non-state-owned conglomerates such as Alibaba, Baidu, BYD, Bytedance, Didi, Huawei, Geely, JD.com, Meituan and Tencent.
- **The Private Economy Promotion Law affirms China's support for the private sector:**[29] The country's latest major law dedicated to promoting the private sector, the Private Economy Promotion Law passed by China's National People's Congress on 30 April 2024, sets out measures to foster fair market competition, improve the investment and financing environment, encourage private enterprises to participate in scientific and technological innovation projects and protect the economic rights and interests of the sector. For the first time, the principle of the "Two Unswervings"[30] is explicitly enshrined in law: unswervingly consolidating and developing the public sector and unswervingly encouraging, supporting and guiding development of the non-public sector. The law also officially confirms that promoting the sustainable and high-quality private economic development is a major, long-term policy priority for the country.
- **Supporting SME development through administrative procedure reforms:** One of China's most notable achievements has been the sweeping reforms of business registration procedures in the last two decades, which has significantly reduced the time and cost for SMEs: (i) one-stop/one-window mechanism: the government has established public administrative service centres where businesses can complete multiple procedures from different agencies at a single location. This eliminates the need to travel between departments for tasks such as business registration, taxation and social security and (ii) consolidation of "Multiple Certificates into One", whereby the business registration process is simplified by merging licenses and certificates (business license, organization code certificate and tax registration) into a single business license with a unified social credit code. This reform has drastically reduced the amount of paperwork and processing times, with the average time to establish a business in China falling sharply from more than 34 days in 2014 to nine days in 2020 in many major cities (Wei et al, 2022).

▶ Box 3: Selected policies supporting SMEs in China's Private Economy Promotion Law

The Private Economy Promotion Law was adopted by the Standing Committee of the National People's Congress after three rounds of deliberation. The law will officially take effect on 20 May 2025. Key policies to promote SME development can be summarized as follows:

- **Ensuring fair competition and market access**

  Instead of fragmented support measures, the law establishes the principle of competitive neutrality. It mandates the uniform implementation of the national negative list for market access and strictly prohibits government agencies from imposing entry barriers or discriminatory bidding conditions based on ownership type. This is particularly significant as it removes the "invisible barriers" that have long prevented SMEs from participating in sectors such as energy, telecommunications and infrastructure. By legalizing the right to fair competition, the law creates a more level playing field, encouraging SMEs to engage more deeply in the economy.

---

[28] Notably: Alibaba, BYD, Baidu, Bytedance, Didi, Huawei, Geely, JD.com, Meituan and Tencent.

[29] Link: https://thediplomat.com/2025/05/chinas-first-law-to-promote-private-enterprise-what-does-it-mean/

[30] Taehee Yoon. 2024. "Communist Party of China and the Chinese Communist Party's Policy on the Private Sector: Coexistence of Fostering and Guidance". Journal of Asia-Pacific Studies. Doi: 10.18107/japs.2024.31.4.001

- **Improving access to finance and credit**

  The law also sets out guiding provisions requiring financial institutions to gradually increase lending to private enterprises. At the same time, it promotes development of new credit evaluation systems, which take into account not only collateral, but also factors such as credit history, cash flow, accounts receivable, intellectual property rights and business reputation. This is particularly important for SMEs in technology and service sectors, which often lack tangible assets, but have high growth potential. Such efforts aim to push the financial system to innovate and better serve SMEs.

- **Effectively addressing late payment issues**

  Under the new provisions, large enterprises are required to settle payments to SMEs within 60 days after the delivery of goods or services. Additional amendments detail responsibilities, enhance oversight and strengthen penalties for unlawful practices. These measures prevent government agencies and large corporations from abusing their dominant positions to impose unfavourable payment terms on SMEs. This not only improves SMEs' cash flow and financial health, but also fosters a sound business culture based on respect for contracts and mutual trust.

Source: Author

"Negative list approach"

China has introduced a *Market Access Negative List,* which specifies business activities prohibited or restricted. It is updated annually to facilitate market entry and reduce the number of business conditions imposed on enterprises. Crucially, any activity not included in the *list*[31] can be carried out by enterprises without requiring additional government licenses. The shortening of the list in 2025 reflects the continued efforts of Chinese regulators to lower entry barriers and encourage investment across a wide range of industries.

Trade promotion support policy

To achieve the goal of expanding into global markets, the central and local governments of China have implemented policies to promote development of SMEs targeting international markets. These efforts include reducing export taxes for certain manufacturing sectors, providing financial assistance and knowledge support for export-oriented enterprises. China's "Going Global" policy was designed to help domestic businesses expand abroad, with specific provisions for SMEs outlined in Articles 41 and 42 of the SME Promotion Law. Measures include facilitating the use of foreign exchange, easing entry and exit procedures for SME personnel traveling overseas, and encouraging financial institutions to offer credit for import-export businesses based on national policy guidelines. In addition, the Chinese Government launched other initiatives such as the Five-Year Action Plan for SME International Development (2016–20), special support for SMEs participating in the Belt and Road Initiative, and promotion of two-way investment through creation of cooperation zones between SMEs and partner countries (Yu et al, 2023).

Financial support for SMEs entering international markets through China's International Market Development Fund

The core objective of the fund is to minimize risks and financial burdens for SMEs as they take their first steps towards exploring foreign markets. By directly subsidizing specific expenses, the government encourages enterprises to be more proactive in seeking export opportunities and international cooperation. The fund is administered and allocated by the Ministry of Commerce of China in coordination with local commerce departments. Enterprises work with the commerce authority in their respective provinces or cities to submit applications and receive subsidies.

[31] Link: https://covid-19.chinadaily.com.cn/usa/business/2012-01/07/content_14397164.htm

- **Eligibility**

  In essence, this is not a competitive "selection" mechanism, but rather a condition-based approval ones. Any enterprise that meets all prescribed criteria is entitled to submit an application and receive funding if the application is valid.

  - Legal status: Must be legally incorporated in China with independent legal person status.
  - Import-export business rights: Must hold the right to engage in foreign trade in accordance with the law.
  - Scale: Must meet China's SME criteria, generally based on revenue and number of employees. The previous year's revenue or export volume must reach a certain minimum threshold.
  - Accounting and financial system: Must maintain a transparent and sound financial and accounting management system.
  - Compliance record: Must have no serious violations of economic, financial, tax or foreign exchange regulations in the past two years.

- **Supported activities**

  The fund operates on the principle of subsidizing part of the actual expenses, usually with a cap for each category and for the total amount an enterprise can receive annually. The support level typically ranges from 50 to 70 per cent of costs.

Table 4: Financial support for SMEs entering international markets through China's International Market Development Fund

Support Category	Support Level	Notes
Participation in overseas exhibitions	• 50–70 per cent subsidy on booth rental fees • Typical cap: RMB15,000–30,000 per booth per exhibition	The most frequently used category by enterprises.
Management system certification	• 50 per cent subsidy on certification costs • Cap: around RMB30,000 for each type of certification (ISO 9000, ISO 14000, OHSAS 18000)	Each enterprise is typically eligible for up to three types of certifications.
Product certification	• 50 per cent subsidy on certification costs • Cap: around RMB40,000–50,000 for each type of product certification (CE Marking, Underwriters Laboratories standards)	Supports mandatory certifications required to enter specific markets
Trademark registration	• 50 per cent subsidy on registration fees • Cap: around RMB10,000 per trademark per country/region	Each enterprise is eligible for up to three items per year
Patent registration	• 50 per cent subsidy on registration costs • Cap: up to RMB50,000 per patent	Encourages protection of high-tech intellectual property
Training and seminars	• 50–70 per cent subsidy on expert fees, venue rental	Applicable to organizations or associations that organize events for multiple SMEs

Source: Author

Support for domestic enterprises in public procurement. To enhance the competitiveness of SMEs in the domestic market, the Chinese Government has implemented preferential public procurement policies for domestic enterprises. Under these policies, at least 30 per cent of the government's total procurement budget is allocated to SMEs, with at least 60 per cent reserved for micro and small enterprises.[32] Article 38 of the SME Promotion Law addresses the need to ensure fair competition among enterprises in China. It stipulates the creation of a fair competitive environment for SMEs. Article 39 encourages cooperation between large enterprises and small enterprises in bidding for government contracts. Facilitating SME access to the domestic market through e-commerce platforms. E-commerce platforms have become a key channel for SMEs to reach the domestic market by lowering entry barriers, expanding access to large customer bases and offering integrated services in logistics, payment and marketing. The Chinese Government has implemented a range of policies to promote e-commerce, focusing on four main areas. First, it supports infrastructure and logistics development by streamlining registration procedures, providing capital and land for warehousing projects, and encouraging smart logistics platforms, particularly in agriculture. Second, it emphasizes building a unified e-commerce credit system, making business and product information publicly accessible to prevent counterfeiting, while establishing penalty mechanisms based on credit ratings. Third, the government strengthens cybersecurity by requiring enterprises to comply with technical standards, promoting the use of digital certificates, and establishing supervisory agencies to combat cybercrime. Finally, China continues to improve its legal framework by revising laws to align with the digital business environment and issuing new regulations on product quality, online transactions and consumer rights.

Box 4: Selected e-commerce channels connecting SMEs to China's domestic market

- Alibaba (Taobao/Tmall): Ecosystem Model. Alibaba operates a marketplace model, connecting millions of buyers and sellers without holding inventory. Taobao is a consumer-to-consumer platform with low entry barriers, ideal for micro-enterprises, individual entrepreneurs, and SMEs experimenting with new markets. Tmall, by contrast, is a business-to-consumer platform tailored for established brands seeking to build a premium presence. Alibaba's strength lies in its extensive ecosystem, including logistics (Cainiao), payment (Alipay) and cloud computing, offering SMEs an integrated solution.
- JD.com: Vertical Integration Model. JD.com primarily adopts a direct sales model, managing its own inventory and a nationwide logistics network. This approach is highly valued for authenticity and reliable fast delivery, making it particularly attractive to SMEs in sectors such as electronics and high-value goods, where trust is critical.
- Pinduoduo: Social Commerce and C2M Model. Pinduoduo leverages a group-buying social commerce model, appealing to price-sensitive consumers, especially in lower-tier cities and rural areas. A key innovation is its Consumer-to-Manufacturer (C2M) approach, which aggregates consumer demand and provides manufacturers with real-time data insights. This enables SMEs to produce on demand, minimize inventory risks, bypass intermediaries and offer highly competitive prices. The model is especially beneficial for small manufacturers that previously operated as original design manufacturers for larger brands and now aim to establish their own.

Source: Author

[32] Link: https://covid-19.chinadaily.com.cn/usa/business/2012-01/07/content_14397164.htm

Policy to promote R&D through the Innovation Fund for Small Technology-based Firms (Innofund)

Established in 1999 as a special non-profit government policy fund with the clear objective of supporting and encouraging technological innovation activities among SMEs, Innofund's role over time has been strengthened, becoming a foundation for more ambitious initiatives. It is regarded as a stepping stone for the "Little Giants" programme, an initiative launched by the Ministry of Industry and Information Technology aimed at identifying and nurturing specialized SMEs capable of addressing technological "bottlenecks" in strategic sectors under the "Made in China 2025" plan.[33] Together, these policies form what analysts call an "accelerator state", a system in which the government not only provides support, but also actively identifies, screens and accelerates development of the most promising high-tech SMEs.

Innofund's management mechanism is designed as a two-tier structure, comprising central and local levels, to ensure a combination of national strategic direction and flexibility in local implementation. At the central level, two key agencies play coordinating roles. The Ministry of Science and Technology (MOST), through its affiliated body the Torch High Technology Industry Development Center (Torch Centre), is directly responsible for the operation of the fund. Specifically, the Innofund Administration Centre, a unit within the Torch Centre, undertakes tasks such as issuing application guidelines, preparing proposals for priority areas, screening and evaluating projects, signing contracts with enterprises, and conducting post-investment evaluations. In parallel, the Ministry of Finance acts as a supervisory and regulatory body, responsible for approving annual guidelines and budgets, transferring funds to the Innofund Administration Centre and assessing performance. Both MOST and Ministry of Finance are required to submit annual reports on Innofund activities and performance to the State Council. This structure reflects a clear and rational division of responsibilities, with MOST focusing on technological expertise and innovation strategy, while the Ministry of Finance ensures fiscal discipline and accountability. This coordination helps strike a balance between the goal of promoting technology and the efficient use of public funds.

Perhaps the most significant and far-reaching impact of Innofund does not lie in the direct funding it provides, but in its indirect role as a certification mechanism or government quality seal. When an SME passes Innofund's rigorous screening process, it receives a valuable form of recognition. This recognition enhances the enterprise's legitimacy, reduces information asymmetry in the eyes of private investors and makes it easier to attract other sources of financing.

This effect is clearly demonstrated through the fund's capital catalyzing capability. Research by Guo et al. (2016) showed that Innofund generated an impressive financial leverage ratio, estimated at 1:11, meaning that for every yuan of capital from Innofund, enterprises could attract 11 yuan from other sources such as local governments, commercial banks and especially VC funds. Moreover, Innofund also plays the role of a referral service, actively connecting funded companies with potential future VC sources, helping them continue to grow after their projects with Innofund conclude.

[33] "First announced in 2015, Made in China 2025 set the tone and tempo of China's industrial ambitions. Today, this strategy is entering a new phase — an AI-augmented, green-energy-powered, self-reliance-oriented transformation of the world's most formidable industrial base". Link: https://www.weforum.org/stories/2025/06/how-china-is-reinventing-the-future-of-global-manufacturing/

▶ Box 5: Financial support mechanisms and selection criteria of China's Innofund

Innofund offers a diverse and flexible portfolio of financial support mechanisms, designed to meet the varying needs of SMEs at different stages of development (Guo et al, 2016. Innofund has three main forms of support:

- Appropriation (non-repayable grants): This is the most common form, accounting for up to 86 per cent of all supported projects. Such grants are typically provided as start-up capital for small companies founded by researchers to commercialize scientific achievements, or as partial subsidies for SMEs to develop new products and carry out trial production. The funding for a single project range from RMB1–2 million. An important condition is that recipient enterprises must commit an equivalent matching fund (1:1 ratio) to ensure their commitment and risk-sharing.
- Interest-free bank loans: This form mainly targets SMEs that have passed the initial R&D stage and require external financing from commercial banks to scale-up production for innovative projects with proven potential. Innofund subsidizes the interest, thereby reducing the financial burden on the enterprise.
- Equity investment: This is the most strategic and selective form of support, typically reserved for projects with cutting-edge technology, strong innovation capabilities, and significant market potential in emerging industries. In this model, Innofund acts as a government-backed venture capitalist. By regulation, the fund's investment usually does not exceed 20 per cent of total registered capital of the investee company.

Source: Author

To ensure that funds are allocated to the right targets, Innofund established highly specific and quantifiable application criteria, focusing on enterprises with a solid technological foundation and strong commitment to R&D. The main criteria are: (i) enterprise size: no more than 500 employees, (ii) human resource quality: at least 30 per cent of total employees must hold a university degree or higher, (iii) R&D investment commitment: annual R&D expenditure must account for at least 3 per cent of total revenue and (iv) R&D team: the number of employees directly engaged in R&D activities must exceed 10 per cent of total employees.

In addition to enterprise-level criteria, projects must also align with national technology and industrial policies, demonstrate potential to deliver socio-economic benefits and possess strong market competitiveness. Priority sectors for support include electronics and information technology, biomedicine, new materials, mechatronics, new energy and environmental protection. These criteria enable Innofund to filter and focus resources on enterprises with the highest potential for impactful innovation.

Clearly, Innofund's greatest value is not in replacing the market, but in addressing a market failure. By conducting due diligence and providing certification, Innofund offers a credible signal that reduces perceived risk and due diligence costs for other investors, thereby unlocking far larger amounts of private capital. This represents a form of State-led blended finance, in which a relatively small amount of public capital is deployed strategically to guide and catalyze a much larger volume of private investment.

Human resource development policy

China has implemented a national policy of "Invigorating China through Science and Education" to promote development of science and education as the "two wheels" driving the nation into the new century. In the government's view, talent is the axle of these wheels, and the development of human resources will determine their speed. Implementation of this strategy has created ample room for human resource development, particularly in science and technology (S&T), to achieve economic growth targets. The government has introduced a series of important policies for developing S&T talent, including:

- **Encouraging passion for scientific research and technological development**

  The government has implemented numerous financial and non-financial support programmes for research projects, providing funding from national and local funds, as well as scholarships and assistance from international organizations. This policy also encourages private enterprises to invest in R&D by offering tax incentives and technical support. In addition, China emphasizes the mobility and connectivity of young scientists through exchange programmes, knowledge-sharing activities and collaborative research initiatives. Scientists are allowed to work in various research fields, including within private enterprises, and may receive salaries from multiple organizations. This approach creates optimal conditions to focus on research and technological development, while maximizing use of their knowledge and skills across diverse contexts.

- **Strengthening the cultivation and training of talent:**

  The strategy aims to build a large and high-quality talent pool, focused on the rational development and deployment of human resources, with capacity building as a core element. Accordingly, Chinese authorities regularly publish lists of urgently needed and scarce S&T talent, while adjusting and upgrading the curricula of universities and colleges. Special attention is given to enhancing the training of S&T personnel in R&D, as well as establishing a wide range of innovation and creativity training centres. Preferential policies for S&T talent, especially core experts leading key manufacturing sectors and engineering projects are also implemented to attract talent into priority industries. These policies enable China to not only develop a strong S&T workforce, but also to foster creativity and innovation throughout society, contributing to the goal of building a prosperous society.

- **Building world-class universities**

  With the vision that elite universities underpin education system competitiveness and are a source of national pride, the Chinese Government in 1995 launched "Project 211", investing in 100 key national universities. Three years later, "Project 985" was introduced with the goal of building Chinese universities that could achieve world-class standards. Tsinghua University and Peking University were the first two institutions to participate in the project for three years, receiving more than RMB1.8 billion annually and to date, nearly 40 universities have been included. In 2017, China's Ministry of Education announced the national "World Class 2.0" programme, with two main objectives: to develop world-class higher education institutions and deliver world-leading training. A key component of these policies is balancing the priorities of cultivating innovative talent and training highly skilled professional scientists. Investment priorities include natural sciences and engineering, reflecting the nation's development needs. The government provides funding for innovative research, establishes numerous S&T innovation facilities and builds key national laboratories. Development of university-based collaborative research and engineering research centres is also promoted. This not only strengthens China's S&T workforce, but also generates advanced products and technologies, meeting the country's development needs and enhancing its global competitiveness.

Table 5: Summary of international experiences in developing SMEs and the private sector in selected Northeast Asian countries

Country/territory	Development model/ key features	Key policies and initiatives
Republic of Korea	The State took the lead, initially focusing on large conglomerates (chaebols), then shifting toward promoting competition, autonomy and innovation in the private sector and SMEs.	• Public procurement: Prioritize SMEs in the procurement of technology products and services, and national construction projects. Giving priority through bonus points to women-owned enterprises during the bidding process. • Access to land and infrastructure: Pangyo Techno Valley project (tax exemptions, low-cost land leases). • TIPS startup incubator: Public-private matching grant programme for tech startups. • KODIT credit guarantee: Address the lack of collateral for SMEs using a credit rating system based on big data and AI. • Venture capital: Establish a "Fund of Funds" to attract private capital into VC. • Export support: "Export Voucher" programme enabling SMEs to choose their own service providers. • R&D promotion: Tax incentives (25–40 per cent deduction of R&D expenses) for SMEs. • Promoting a sustainable labour market: The Youth Tomorrow Filling Credit savings programme with contributions from the government, enterprises and young workers. The role of KEIS in linking the labour market with businesses and supporting workers in finding quality jobs.
Taiwan Province of China	Relying on a flexible and dynamic network of SMEs to create "hidden champions" that lead market shares in global niche markets.	• "Flagship Enterprise" Programme: Identify high-potential SMEs with core technologies operating in niche markets and support them to grow into world-leading companies in their specialized fields. • Industrial Technology Research Institute: Conduct strategic R&D, transfer technology to SMEs or spin-off new companies (TSMC, UMC). • SME Credit Guarantee Fund: Risk-sharing mechanism (guaranteeing 80–90 per cent of loans), high-quality credit scoring system, sustainable funding from the authorities and mandatory contributions from banks.
China	Combining market mechanisms with strong State guidance and control to promote the private sector as the main driving force of the economy.	• Private Economy Promotion Law (2024): Ensures fair competition, improves the investment environment, encourages technological innovation and protects rights and interests. • Administrative reform: "One-stop" mechanism, consolidating "Multiple Certifications into One" (reducing business registration time). • Reducing entry barriers: the 'Market Access Negative List' approach encourages enterprises to invest in industries that are not prohibited or restricted by law. • Supporting access to international markets: Export tax reductions, financial assistance for "Going Global" enterprises. • Supporting access to the domestic market: Promoting and developing the e-commerce sector. • Public procurement: Priority for SMEs (at least 30 per cent of total budget, 60 per cent for micro and small enterprises). • R&D Promotion (Innofund): Policy fund offering grants, interest-free loans and equity investments for tech-based SMEs. Serves as a "certification" mechanism to validate private enterprise capabilities and attract private capital. • Human resource development: "Science and Education to Revitalize China" policy, encouraging research, talent cultivation and building world-class universities.

Source: Author

2.2 Experience from Southeast Asian countries

ASEAN member states, with similarities in development levels and challenges, offer practical and relevant lessons for Viet Nam. Analysing the experiences of Singapore, Indonesia and Thailand reveals diverse approaches to developing the private sector and SMEs, highlighting both successes and challenges in implementation.

2.2.1 Singapore

Singapore is an outstandingly successful model in building an open, competitive and knowledge-based economy. The city-state's economy is characterized by effective symbiosis among three components: multinational corporations (MNCs), government-linked companies (GLCs) and a dynamic SME sector. In 2022, SMEs accounted for 99 per cent of all enterprises, contributing 47 per cent of GDP and nearly 72 per cent of total employment, underscoring their indispensable role in Singapore's economy.[34] Singapore's success is built on a consistently implemented range of policies:

- **Creating a conducive business environment**

  One of the key factors enabling Singapore to boost its private sector is the creation of a favourable business environment, where companies can be easily established and grown without facing excessive legal barriers. The government has built a transparent legal system, minimized administrative procedures and ensured fair competition. According to World Bank assessments, Singapore consistently ranks among countries with the most business-friendly environments in the world.[35] Businesses can complete registration in just one day, while the corporate tax rate of 17 per cent is one of the lowest in the region and helps attract investment and foster the growth of startups. In addition, Enterprise Singapore, formed from the merger of SPRING (focused on productivity, standards, and SMEs) and International Enterprise Singapore (internationalization), has become a single agency providing comprehensive support to Singapore-based businesses of all sizes and stages of development.[36] This approach helps avoid overlaps and fragmentation, ensuring that policies are coordinated effectively.

- **Policy tiering for accounting and auditing regulations to reduce compliance burdens**

  Singapore's amended Companies Act (2014) introduced extensive changes to ease regulatory requirements and lower compliance costs, providing greater flexibility for companies, particularly SMEs. Previously, Singapore-based companies with annual revenue below SGD5 million and fewer than 20 shareholders who were non-corporate entities (individuals) were exempt from statutory audit requirements. Instead of submitting audited financial statements, these companies only needed to file a solvency declaration signed by the directors and company secretary. If, for any reason, the company could not submit the declaration, it had to file its unaudited financial statements with the Accounting and Corporate Regulatory Authority of Singapore, and no auditor appointment was required.

  Under the new regime, SMEs benefit if they qualify under a broader set of criteria for statutory audit exemptions. To qualify as a "small company", a firm must meet at least two out of the following three criteria: (i) total annual revenue of no more than SGD10 million, (ii) total assets of no more than SGD10 million and (iii) total number of employees not exceeding 50. The aim is to reduce regulatory burdens on SMEs and move further to a risk-based approach.

[34] Link: https://www.paulhypepage.com/blog/trends-for-singapore-DNNVV-current-trends-of-2024-and-growth-outlook/

[35] Link: https://www.edb.gov.sg/en/why-singapore/business-friendly-environment.html

[36] Link: https://www.marketing-interactive.com/ie-singapore-and-spring-singapore-to-merge-into-single-entity

- **Tax incentive policies**

  In addition to its low corporate tax rate, the government offers numerous tax incentives for private enterprises. For example, companies producing high-tech products or providing value-added services may be granted "Pioneer" status and enjoy a five-year corporate income tax exemption, with the possibility of extension depending on the scale of operational expansion. After the Pioneer phase, if the company continues to expand projects that contribute value to the economy, it may benefit from a preferential tax rate (5–10 per cent) under the Development & Expansion Incentive programme. Furthermore, Singapore imposes no capital gains tax and maintains a relatively low Goods and Services Tax rate, creating favourable conditions for business capital accumulation and reinvestment.

- **Partnering with businesses in digital transformation**

  The Singapore Government is proactive and flexible in supporting SMEs through a series of comprehensive policies tailored to each stage of business development. Since 2016, the Infocomm Media Development Authority has assisted SMEs, with notable programmes such as SME Go Digital (2017) which helps businesses select and implement digital solutions and Start Digital (2019) that provides basic digital tools for newly established SMEs, while Grow Digital (2020) enables SMEs to expand into global markets via e-commerce platforms. In May 2024, Singapore announced the Digital Enterprise Blueprint, aiming to support at least 50,000 SMEs in adopting AI over the next five years, focusing on four priorities: adopting new technologies (especially AI), scaling through cloud-based solutions, strengthening cybersecurity and upgrading workforce skills. By 2024, more than 95 per cent of Singapore's SMEs had adopted at least one digital technology, up sharply from 84.9 per cent in 2019, contributing significantly to the digital economy's annual growth rate of 12 per cent, which accounted for 18.6 per cent of GDP in 2024.[37]

  Singapore has also implemented a wide range of funding schemes to support businesses in their digital transformation. These include Start Digital for new businesses, the Productivity Solutions Grant covering 50 per cent of technology costs (up to SGD30,000), and the Enterprise Development Grant focusing on core capabilities, innovation, productivity and market expansion. In addition, the government promotes adoption of generative AI through the GenAI Sandbox programme, enabling SMEs to experiment with AI applications in marketing and sales. On the training side, the SkillsFuture programme provides funding for businesses and workers to learn digital skills such as cybersecurity, digital marketing and data analytics. Individual Singapore citizens aged 25 years and above receive SGD500 in credit to upgrade their skills, while businesses can receive up to SGD10,000 through the SkillsFuture Enterprise Credit programme to train staff in digital-related competencies.

- **Strong emphasis on enhancing the capabilities of business leadership**

  The government has implemented numerous programmes to strengthen skills of business leaders, particularly in SMEs to drive sustainable growth, innovation and global competitiveness. One notable initiative is the Enterprise Leadership for Transformation (ELT) programme, a joint effort between Enterprise Singapore and SkillsFuture Singapore, that focuses on developing strategic thinking and executive management capabilities for CEOs and founders through a year-long, intensive training delivered by prestigious institutions such as the National University of Singapore, Singapore Management University and the Management Development Institute of Singapore. ELT specifically supports high-growth potential companies, with eligibility criteria including headquarters located in Singapore, annual revenue of at least SGD5 million, and a readiness to invest in innovation, digital transformation or market expansion. The Singapore Government covers up to 90 per cent of tuition fees via the SkillsFuture Enterprise Credit and also provides business mentorship to help participants apply their newly acquired knowledge to real-world business operations and growth strategies.[38]

---

37 Infocomm Media Development Authority. 2025. Architecting Singapore's Digital Future. Link: https://www.imda.gov.sg/resources/press-releases-factsheets-and-speeches/factsheets/2025/ar-sgde-2025

38 Link: https://www.enterprisesg.gov.sg/grow-your-business/boost-capabilities/growth-and-transformation/enterprise-leadership-for-transformation

- **Attracting high-quality FDI and integrating SMEs into global supply chains**

  Through the Economic Development Board (EDB), Singapore has attracted leading global MNCs to establish headquarters, R&D centres, and high value-added production facilities. EDB not only offers attractive incentives, but also proactively builds a complete ecosystem, from physical and digital infrastructure to high-quality human resources and a transparent, stable legal environment. In particular, Singapore's tax system is considered "simple and investor-friendly." The highest corporate tax rate is 17 per cent, among the lowest in the world. In addition, Singapore has signed double taxation avoidance agreements with more than 70 countries worldwide, thereby making an important contribution to reducing the tax burden for foreign enterprises. The expanded network of double taxation avoidance agreements, together with zero capital gains tax and zero tax on dividend income, has made Singapore an attractive place for business investment through joint ventures. For Viet Nam, attracting FDI is a necessary condition to improve the competitiveness of domestic enterprises.

In addition, the government proactively plays the role of a bridge, encouraging and facilitating MNCs to collaborate and integrate local SMEs into their supply chains. The Partnerships for Capability Transformation (PACT) programme is a typical example. The core objective of PACT is to accelerate the development, innovation and internationalization of SMEs by leveraging the expertise, resources and supply chains of large corporations, often referred to as "Lead Enterprises". Under this programme, the government subsidizes part of the cost when a large company (MNC or GLC) proactively collaborates, transfers technology, knowledge and management processes to help its SME suppliers enhance their capabilities and meet international standards.[39] This approach creates a mutually beneficial relationship: MNCs gain a more sustainable and higher-quality local supply chain, while SMEs can learn, improve their capabilities, and internationalize in a substantive way.

PACT Programme of Singapore

The PACT programme is administered by Enterprise Singapore (EnterpriseSG), a government agency under Singapore's Ministry of Trade and Industry, tasked with promoting business growth. The agency works with committed companies to build capabilities, foster innovation and expand internationally, while also supporting Singapore's growth as a global hub for trade and startups.

- **Selection criteria for participating enterprises:** To participate in the PACT programme, both lead enterprises and partnering SMEs must meet specific criteria. These conditions ensure that the programme is feasible, committed and delivers real impact on Singapore's business ecosystem.

[39] Link: https://www.edb.gov.sg/en/business-insights/insights/singapore-smes-need-mnc-contracts-to-escape-the-small-size-trap.html

Table 6: Selection criteria for participating enterprises in PACT programme

Criteria	Conditions
For lead enterprises	• Must be a MNC or a large enterprise headquartered in Singapore. • Must have a strong commitment to developing local suppliers or partners. • Must have the scale and resources to lead and manage a collaborative project involving multiple SMEs. • Willing to share expertise, technology and best practices.
For partner enterprises (SMEs)	• Must be registered and operating in Singapore. • Must have at least a 30 per cent local shareholding. • Must have a sound financial standing and be ready to commit resources to the project. • Operates in the supply chain or sector related to the lead enterprise and has clear growth potential.
For collaborative projects	• Must focus on significant transformation and capability enhancement. • Must fall within supported areas: supplier development, co-innovation, capability training, internationalization or venture building. • Must not have commenced (signing contracts, making third-party payments) before applying to EnterpriseSG. • Must deliver measurable outcomes (improved productivity, reduced costs, new product development and entry into new markets).

Source: Author

- **Detailed selection process:** The selection process is designed to ensure transparency and efficiency. The lead enterprise will be primarily responsible for submitting the application and coordinating the project.

Table 7: Detailed selection process for PACT programme

Step	Detailed description
Step 1: Discussion and planning	• The lead enterprise and partner SMEs jointly discuss and determine the project's objectives, scope, implementation plan, estimated budget and expected outcomes (KPIs).
Step 2: Prepare documents and submit application	• The lead enterprise submits an online application through Singapore's Business Grants Portal. • The application package typically includes a detailed project proposal, most recent audited financial statements of participating companies, business registration information and detailed quotations for cost items such as equipment, software and consultancy services.
Step 3: Evaluation and assessment	• EnterpriseSG will review and assess the application based on the stated criteria.
Step 4: Approve and receive invitation	• If the project is approved, EnterpriseSG will issue an official letter of offer to the lead enterprise. This letter will outline the terms, conditions, approved funding amount, project milestones and reporting requirements.
Step 5: Acceptance and implementation	• The lead enterprise formally accepts the letter of offer via the Business Grants Portal. The project can officially commence.
Step 6: Request a refund	• Upon completion of project milestones and payment of expenses, the lead enterprise compiles invoices and supporting documents and submits a reimbursement claim via the Business Grants Portal. • EnterpriseSG will verify the documents and disburse the corresponding grant amount.

Source: Author

- **Specific incentive mechanism:** The PACT incentive mechanism is highly attractive, especially for SMEs, as it significantly lowers financial barriers to participating in large-scale transformation projects.

Table 8: The PACT programme's incentive mechanism

Cost category	Specific financial support level	Examples
Software and materials	Up to 70 per cent of eligible costs	Cost of purchasing supply chain management software licenses, cost of raw materials for trial production of new products.
Services and human resources	Up to 70 per cent of eligible costs	Costs of hiring consultants to optimize production processes and training employees, salary for project managers hired specifically for the PACT programme.
Hardware and equipment	Up to 50 per cent of eligible costs	Cost of purchasing new machinery and automation equipment to meet the quality standards of the leading enterprise.

Source: Author

Note: The programme operates on a co-funding basis. Participating companies must initially cover all project costs and subsequently submit a claim to EnterpriseSG for reimbursement of the supported portion. This requires companies to be financially prepared in advance.

Startup support policy

Singapore focuses on incubating domestic startups, especially technology startups. The government has built a favourable startup ecosystem with numerous incubators, innovation centres and connections to the global innovation network. Government support is concentrated on providing investment capital for promising startups,[40] establishing SGInnovate and various startup accelerator funds, helping young companies connect with mentors, investors, international markets and providing legal and administrative support that facilitates startup, such as fast business registration and strong intellectual property protection. Notably, through government-scale pilot projects, new products and services from startups are offered to their "first customer", the Singapore Government. Thanks to this comprehensive policy, Singapore has developed a vibrant startup community, attracting entrepreneurial talent from around the world to the "Silicon Valley of Asia".

Innovation and technology policy

Technological innovation is a pillar of Singapore's private sector development strategy. The government invests heavily in R&D, with the 2020 budget reaching 2.16 per cent of GDP (World Intellectual Property Organization, 2024), significantly higher than Viet Nam's R&D investment rate of 0.7 per cent in 2024 (Pham Manh Hung; To The Nguyen, 2025). Thanks to 30 years of persistent investment in S&T, Singapore has built one of the region's leading research-innovation ecosystems.

Table 9: Financial support programmes for SMEs to promote R&D activities in Singapore

Programme	Main objective	Mechanism and level of support	Eligible costs/activities	Target SMEs
Enterprise Innovation Scheme	Promote intensive R&D and innovation activities.	Tax deduction of up to 400 per cent for the first SGD400,000 of qualifying expenses or receive 20 per cent cash payout for companies without profits.	Eligible costs include R&D staff expenses, consumables, outsourced R&D, IP registration and licensing, training and innovation projects with partners.	All businesses, attractive to companies with intensive R&D activities and startups without profits.
Enterprise Development Grant	Support for large-scale, strategic transformation projects.	Co-funding of up to 50 per cent of project costs (70 per cent for sustainability-related projects).	Projects aimed at transforming core capabilities, enhancing innovation and productivity, or enabling entry into overseas markets.	Mature SMEs ready for deep transformation projects and equipped with clear business plans.
Productivity Solutions Grant	Promote widespread adoption of basic digital solutions and equipment.	Funding of up to 50 per cent of costs, capped at SGD30,000 per year.	Purchase or lease of pre-approved IT solutions and equipment from the government's list.	SMEs in early-stage digitalization that require standard solutions to improve operational efficiency.

Source: Author

The government has introduced policies to encourage private enterprises to invest in R&D and technology through the R&D tax incentive mechanism with deductions for eligible expenses and innovation support funds to help businesses boldly develop new products. In addition, the government supports private enterprises to access laboratories, consult experts and receive technology transfers from research institutes to enhance innovation capacity. Notably, the government plays the role of a "smart customer", early adopting unproven new technologies in the public sector, such as transport, energy, public healthcare. As a result, corporate technology initiatives are quickly refined and widely commercialized to the private sector.

[40] The Startup SG Equity programme mobilizes private sector capital to invest in start-ups, with the government co-investing at a certain ratio to share risks and attract more investors to the start-ups.

Monitoring and evaluating the effectiveness of enterprise support policies

Policy formulation is merely the first step, as determining whether these policies are truly effective is critical. An effective monitoring and evaluation system is an indispensable tool for ensuring accountability, learning from experience, and optimally allocating public resources. EnterpriseSG demonstrates a particularly robust approach to tracking and reporting outcomes of its support programmes. In its annual reports, EnterpriseSG consistently publishes specific quantitative data on the results of its assistance activities. For instance, in 2024, it successfully supported more than 11,500 enterprises, with 2,300 undertaking transformation projects. These projects were forecast to generate SGD14.5 billion in additional annual revenue and create more than 12,300 jobs.[41] This data-driven approach not only ensures transparency, it also allows stakeholders to accurately assess the scale and impact of the agency's work.

2.2.2 Indonesia

Indonesia is a prime example of an economy where MSMEs play a critical role. With more than 64 million enterprises, MSMEs account for the vast majority (99 per cent), contribute 61 per cent of GDP and employ an overwhelming 97 per cent of the country's workforce.[42] This role is particularly important to maintain national social stability, create jobs and reduce poverty.

Creating a favourable business and investment environment

In 2020, the Indonesian Government enacted the Job Creation Law (Omnibus Law), marking a major legal reform aimed at promoting investment and creating jobs. It amended more than 75 laws, focused on simplifying business licensing procedures, expediting land acquisition processes, consolidating overlapping regulations and increasing government flexibility in economic management.[43] The law establishes a risk-based business licensing mechanism, whereby low-risk businesses only need to register for a business identification number, medium-risk businesses require a standard certification and high-risk businesses must obtain a full license. In terms of investment attraction, the Omnibus Law opens most sectors to the private sector, including foreign investors, except for prohibited or restricted fields reserved for state-owned enterprises.[44]

Supporting private enterprises in investing in large-scale projects

The government implements tax incentive policies, exemptions and reductions for private entities when investing in substantive projects in priority sectors, such as infrastructure, high technology and deep-processing industries. In addition, Indonesia has developed special economic and free trade zones with dedicated incentives on taxes, land and customs procedures to create attractive destinations for private investors. The government also promotes the mobilization of private capital for infrastructure development (roads, seaports, power, telecommunications) through public-private partnership (PPP) models to address development bottlenecks, with policies such as risk-sharing mechanisms, government guarantees or supporting PPP project preparation.

Furthermore, the Indonesian Government allows for the establishment of national investment funds to attract private and foreign investors to co-invest in strategic sectors.[45] This demonstrates the government's determination to maximize the mobilization of social resources for development investment.

---

[41] Link: https://byvn.net/hKT1

[42] Link: https://jakartaglobe.id/business/mDNNVV-account-for-97-of-job-opportunities-in-indonesia

[43] Link: https://ijbel.com/wp-content/uploads/2021/04/IJBEL24-003.pdf

[44] The government replaced the Negative Investment List with the Positive Investment List in 2021, thereby removing foreign ownership restrictions in more than 200 sectors to encourage investment.

[45] In 2021, Indonesia launched the Indonesia Investment Authority (INA), the country's first sovereign wealth fund with initial capital of US$5 billion provided by the government and additional funding mobilized from domestic and foreign private funds (such as the UAE Investment Authority, Japan Investment Corporation). INA focuses on investing in infrastructure, manufacturing and technology, serving as a "catalyst" to connect private capital to large-scale projects. In early 2025, the Indonesian Parliament approved establishment of the Danantara Investment Fund (with initial capital of IDR1,000 trillion) under the Office of the President, tasked with managing the State capital portfolio in major state-owned enterprises, restructuring them, and attracting external investors to jointly develop key economic sectors.

Financial support for MSMEs

Since 2007, Indonesia has implemented the Kredit Usaha Rakyat (KUR) programme – a government-backed preferential credit scheme for MSMEs. KUR provides working capital loans with three-year repayment periods and investment loans with five-year repayment periods at attractive low annual interest rates of 6 per cent (10 percentage points lower than the market rate) for small businesses, along with partial credit guarantees from the State budget. To qualify for a loan, MSMEs must meet certain requirements, such as having no history of non-performing loans, a feasible business plan and a valid business license. Among these, loans for micro-enterprises (KUR Mikro) have a maximum limit of IDR100 million (US$6,000) and require no collateral. To date, the KUR programme has disbursed more than 50 million loans worth more than US$100 billion to MSMEs, helping many small businesses access capital to expand production and operations.

Tax support policy

The government simplifies tax obligations for small-scale businesses, whereby those with annual revenues not exceeding IDR4.8 billion (US$290,000) are subject to a flat income tax rate of 0.5 per cent on revenue instead of declaring tax based on profit. This preferential tax policy has reduced administrative burdens and compliance costs for millions of business households, encouraging them to join the formal sector.

Technology and innovation support

The government is implementing the "Making Indonesia 4.0" programme to promote adoption of advanced technologies such as robotics, AI and Internet of Things in the manufacturing sector. One of the programme's key policies is tax incentives to encourage companies, especially in manufacturing, to invest more in R&D and application of advanced technologies. For example, companies conducting R&D in Indonesia may deduct up to 300 per cent of R&D expenses from taxable income. To qualify, R&D activities must fall within specific sectors and meet the programme's defined criteria and conditions.

2.2.3 Thailand

Similarly, MSMEs are a significant feature of Thailand's business landscape, numbering nearly 3.2 million in 2022, accounting for 99.5 per cent of all enterprises nationwide. This sector contributed 35.3 per cent to GDP (2022 World Bank data) and employed 12.8 million people, equivalent to nearly 70 per cent of the total labour force. A comparison of these figures reveals an important distinction: while only 0.24 per cent of large enterprises in Thailand generated as much as 48 per cent of GDP, the remaining 99.76 per cent of MSMEs contributed only 40 per cent.[46] This indicates that the primary growth drivers of the Thai economy still depend heavily on large corporations. Consequently, the role of MSMEs is somewhat different: they serve as the backbone of the labour market, the foundation for social stability and important suppliers within domestic value chains, rather than primary engines of GDP growth. Recognizing this, the Thai Government has set an ambitious target to increase MSMEs' contribution to GDP to 50 per cent by 2021, in an effort to reshape the country's economic structure.

Role of the Office of Small and Medium Enterprises Promotion (OSMEP)[47]

Not only a dedicated MSME management agency, it is also a strategic coordination centre, policy integrator and institutional innovation leader in small business support in Thailand. Established under a specific law and directly under the Office of the Prime Minister, OSMEP holds a special legal and institutional status, enabling it to overcome policy fragmentation common in developing countries, whereby MSME support programmes are split across multiple ministries. One of OSMEP's smart approaches is to classify enterprises for tailored support policies: businesses under three years old are identified as "start-ups", while those over three years are considered "regular enterprises", with each group receiving specially designed support packages to enhance competitiveness.

[46] Link: https://www.adb.org/publications/asia-sme-monitor-2023

[47] Link: https://en.sme.go.th/en/

A notable OSMEP initiative is SME One ID, a unified MSME identification system. Previously, businesses had to repeatedly submit information when accessing different public services, leading to fragmented data and reduced support efficiency. SME One ID, instead, acts as a "digital key", allowing MSMEs to use a single account to access all programmes, incentives and services from government agencies, including taxation, finance, training and e-commerce. It is also linked to credit rating systems and records of participation in programmes, enabling authorities to design more targeted and effective support policies.

To promote digital transformation among MSMEs, OSMEP has developed the e-Support online platform where businesses can register for assistance, submit applications, search programmes, download resources and track progress online. In addition, OSMEP's e-Learning platform offers hundreds of free courses on financial management, digital transformation, export and innovation, tailored specifically for Thai MSMEs. Both platforms are integrated with the SME One ID system, enabling seamless enterprise information management without repeated declarations. This marks an important step forward in modernizing public services and personalizing support policies based on actual data of each enterprise.

Financial support and credit guarantee policies

The government regularly launches large budget packages to support MSMEs, for example, a THB100 billion package to help businesses weather the pandemic, concessional loan programmes through the Small and Medium Enterprise Development Bank of Thailand (SME Bank) and direct subsidies for struggling businesses to retain employees (THB3,000 per employee, per month subsidy during hard times) and improve liquidity (THB1.9 billion concessional loan package in 2024 from the Thailand SME Fund). In addition, to address insufficient collateral, OSMEP works closely with the Thai Credit Guarantee Corporation to encourage commercial banks to lend more readily to MSMEs, with the corporation providing guarantees for those loans.

Policies to attract foreign investment and strengthen linkages between FDI and domestic MSMEs

The "Thailand Plus" initiative, introduced by Thailand's Board of Investment (BOI) in 2019, aims to boost foreign investment and promote large-scale projects in key industries. Under this new package of incentives, foreign companies investing in Thailand are entitled to an additional 50 per cent reduction in corporate income tax for five years, double the deduction rate for training expenses, and a five-year corporate tax exemption for establishing skills development centres. For companies located outside Bangkok, in addition to a five to eight-year corporate tax exemption, they receive an extra 50 per cent corporate income tax reduction for five years. Companies are also encouraged to set up training and vocational centres in science, technology, and engineering fields. Moreover, investments or expenses related to human capital development can be claimed as deductible items for corporate tax exemption purposes without any minimum spending requirement.

The BOI established the BOI Unit for Industrial Linkage Development (BUILD) in 1992 to promote and develop supporting industries, creating linkages between local component suppliers and large companies, including MNCs in Thailand and abroad. This will help suppliers improve product quality, production efficiency and labour productivity, while removing obstacles arising during subcontracting. BUILD focuses on providing market information and relevant services, without offering tax privileges or financial incentives. In addition, BUILD is responsible for developing and disseminating the ASEAN Supporting Industry Database to foster linkages among ASEAN member states and global markets. By August 2017, it had listed 20,198 enterprises, of which 13,534 were suppliers in Thailand, including the automotive sector (1,419), electrical and electronics (1,393) and other industries (965).

In addition, the BOI designed conditional investment incentive policies for FDI enterprises to: (i) encourage them to use locally produced components, materials and services supplied by Thai SMEs and (ii) facilitate technology transfers and workforce training for local enterprises. Linkages with domestic SMEs are considered a positive factor when evaluating investment incentives, for example: (i) Corporate Income Tax incentives, such as extended tax holiday periods if the FDI enterprise has a supplier development programme for local firms or increases the proportion of "local content", (ii) customs incentives, with reduced or exempted import duties on machinery if the FDI enterprise commits to technology transfers to local SMEs and (iii) Eastern Economic Corridor incentives, whereby FDI enterprises using service providers or inputs from local SMEs within the corridor are given priority access to land, industrial estates, and investment credit facilities.

Thailand's SME Privilege Club Initiative

A creative aspect of Thailand's model is the use of PPP-based support programmes. A prime example is the "SME Privilege Club" initiative, which follows a "win-win" model: OSMEP leverages the national data platform (SME One ID) to connect SMEs with leading private sector partners such as e-commerce platforms Lazada and Shopee, technology companies like LINE, major banks and insurance companies. In return, these partners support SMEs within the network, including: (i) improving production efficiency: discounts on logistics services, material analysis and software costs, (ii) expanding sales channels: reduced commission fees and entry costs on e-commerce platforms and (iii) investment connection: preferential loan packages and financial advisory services. In addition, OSMEP implements several other specialized programmes such as SME Step Up that supports digital transformation and product standardization and programmes promoting the Bio-Circular-Green Economy model. This approach creates a self-sustaining and expanding ecosystem in which the government plays the role of facilitator and connector, while the private sector delivers tangible benefits allowing the government to achieve policy goals without large budget expenditures.

The core objective of the SME Privilege Club is to enhance the competitiveness and reduce operating costs of SMEs across Thailand. While not directly providing funding for transformation projects, instead it focuses on granting SMEs the privileges, incentives and business opportunities that large enterprises typically only access.

- **Initiative's resources:** From two sides, clearly reflecting the PPP model:
  - From the government: OSMEP allocates funds to develop and operate technological platforms (SME One ID system and the SME CONNEXT application), organize business networking events, promote the initiative and coordinate the partner network.
  - From private sector partners: This is the primary source of incentives. More than 30 large companies from various sectors (Shopee, LINE, banks, logistics companies) provide discount packages, free services and exclusive preferential terms for club members. These partners, in turn, benefit from access to OSMEP's broad SME customer base.
- **Eligibility criteria:** The club process is not a competitive "selection", but rather a "registration and membership verification" process open to all eligible SMEs.

Category	Details

Eligibility criteria (requirements to become a member)	• Legal entity requirement: Must be a legally registered business in Thailand (sole proprietorship, partnership, limited company).
	• Comply with OSMEP's SME definition: The business must meet the revenue or employee-number criteria set by OSMEP for each sector. For example:
	  • Manufacturing: revenue ≤ THB500 million OR ≤ 200 employees.
	  • Services and wholesale: revenue ≤ THB300 million OR ≤ 100 employees.
	  • Retail: revenue ≤ THB300 million OR ≤ 50 employees.

	• Have an SME One ID code: This is a mandatory requirement. The business must successfully register in OSMEP's SME One ID system.

Source: Author

- **Specific incentive mechanisms:** The incentives are designed to be highly practical, focusing directly on operational costs and growth opportunities for enterprises.

Incentive areas	Mechanism description and specific examples

Reducing operating costs	• Mechanism: Receive discount codes, vouchers or direct discount terms from partner service providers. Specific examples:
	  • Discount on shipping fees when using services from Kerry Express or Flash Express.
	  • Discounts on purchasing accounting software or point-of-sale management software.
	  • Preferential pricing when purchasing packaging and labels from manufacturers.

Market expansion and sales channels (domestic and international)	• Mechanism: Priority access and special terms when participating in e-commerce platforms and trade promotion events. Specific examples: • Shopee: Waived commission fees for the first three months, with participation in exclusive marketing campaigns jointly organized by Shopee and OSMEP. • LINE: Access to LINE Official Account packages at preferential rates for customer care. • Trade fairs: Priority consideration and partial financial support for registering to participate in national pavilions at major trade fairs, such as Thaifex and HKTDC Food Expo.
Access to finance	• Mechanism: Loan applications from members are given priority review and expedited processing by partner banks. Specific examples: • Priority loan processing at partner banks, such as the Export-Import Bank of Thailand (EXIM Bank) and Krungsri Bank.

Source: Author

Prioritizing SMEs in government procurement

Thai SME-GP is a programme aimed at increasing the participation of Thai SMEs in the government procurement market, designed under the legal framework of Public Procurement Act (2017) and implemented by OSMEP in cooperation with the Bureau of the Budget. Under this policy, government agencies are required to allocate a minimum percentage of their procurement budget to domestic SMEs, while also applying technical and price preference measures for enterprises certified as SMEs. OSMEP plays a role in building SMEs' bidding capacity through training, the electronic bidding system, and product certification support. This key policy helps SMEs secure a stable market and boost revenue without having to rely entirely on the private sector.

Table 10: Summary of international experiences in developing SMEs and the private sector in selected Southeast Asian countries

Country/ territory	Development model/ key features	Key policies and initiatives
Singapore	Open economy driven by knowledge and innovation, with a mutually supportive relationship between MNCs, government-linked companies, and a dynamic SME sector.	• Favourable business environment: Fast business registration (one day) and a simple tax system. Enterprise Singapore acts as a one-stop agency providing comprehensive business support. • Tiered accounting/auditing policies: Audit exemption for "small" companies (revenue/assets below SGD10 million, fewer than 50 employees). • Tax incentives: "Pioneer" certificate (five-year tax exemption) and "Development & Expansion Incentive." • Digital transformation: Programmes such as SME Go Digital, Start Digital, Grow Digital, and the Digital Enterprise Plan (AI adoption). Support schemes like Productivity Solutions Grant and EDG assist SMEs in going digital, and SkillsFuture provides digital skills training. • Capacity building for business leaders: The Enterprise Leadership for Transformation programme develops strategic thinking and management skills for CEOs and founders, with the government covering up to 90 per cent of tuition costs. • Attracting high-quality FDI and supply chain integration: The Economic Development Board has developed a complete ecosystem (infrastructure, talent, legal framework), corporate tax incentives (17 per cent corporate tax rate, double taxation agreements). Supply chain integration through the PACT programme, where the government co-funds technology transfer partnerships between MNCs/GLCs and SME suppliers. • Startup support: Favourable ecosystem, establishment of SGInnovate to invest in and support innovative startups focusing on AI, biotechnology and other advanced technologies. Government policy acts as the "first customer" for startup products. • Innovation and technology: Heavy investment in R&D, tax incentives for corporate R&D expenditures and innovation funds. The government also serves as a "customer" for SMEs' new technologies.
Indonesia	SMEs play a crucial role in the economy, accounting for 99 per cent of businesses and 97 per cent of the workforce. Policies focus on reforming the business environment, supporting private enterprises in investing in large-scale projects, along with financial, tax, technology, and innovation support measures.	• Business and investment environment: The Job Creation Law (Omnibus Law) simplifies licensing based on risk levels and opens industries to the private sector. • Support for large-scale investment projects: Tax incentives for private investors, development of special economic zones, PPP models and a national investment fund to attract private capital. • Financial support: The Kredit Usaha Rakyat (KUR) programme provides concessional loans with low interest rates (6 per cent, per year) and partial guarantees. • Tax support: A flat tax of 0.5 per cent on revenue for small businesses (annual revenue below US$290,000). • Technology and innovation development support: The "Making Indonesia 4.0" programme offers tax incentives (up to 300 per cent deduction on R&D expenses).

Country/ territory	Development model/ key features	Key policies and initiatives
Thailand	Developing an "SME ecosystem" model coordinated by OSMEP, an independent agency under the Office of the Prime Minister, operating under its own law, with numerous effective initiatives.	• Role of OSMEP: Coordinate the SME support ecosystem and classify enterprises (start-up/regular) to tailor policies accordingly. • SME One ID Initiative: Provide a unique digital identification for enterprises. • Thai SME-GP Initiative: Prioritize SMEs in public procurement. • Financial support and credit guarantee: Large budget packages, concessional loans via the SME Bank, wage subsidy programmes and cooperation with the Thai Credit Guarantee Corporation. • Attracting FDI and promoting FDI-SME linkages: "Thailand Plus" initiative (tax incentives, training), BOI designs conditional incentives for FDI (use of local components, technology transfer). • SME Privilege Club Initiative: The PPP model in which OSMEP connects SMEs with private partners (e-commerce platforms, banks) to provide support (discounted services, reduced commission fees, preferential loan packages). • Monitoring and evaluating the effectiveness of enterprise support policies: EnterpriseSG tracks and reports the outcomes of its support programmes in its annual reports.

Source: Author

2.3 Experiences from other countries

2.3.1 India

India, with its vast population and large-scale economy, offers a dynamic model for private sector and SME development—though not without challenges. SMEs are regarded as a pillar of the Indian economy, contributing 30 per cent to GDP, more than 40 per cent to total exports, and serving as the second-largest employment provider after agriculture, with more than 110 million jobs.[48] Here are some notable policies and initiatives for private sector and SME development in India.

Startup India Initiative

Launched in 2016, this comprehensive initiative is aimed at building a robust startup ecosystem. Key measures include simplifying legal procedures, offering a three-year tax holiday, providing low-cost intellectual property protection (80 per cent reduction in patent filing fees) and notably establishing the *Fund of Funds for Startups* with a budget of INR10,000 (US$1.2 billion). Similar to Republic of Korea's model, this initiative does not invest directly, but channels capital into private VC funds, creating a leverage effect that attracts additional private investment and stimulates the domestic VC market. It has had a significant impact, making India the third-largest startup ecosystem in the world, with more than 157,000 recognized startups and more than 1.7 million direct jobs created.[49]

[48] Link: https://www.ifc.org/en/stories/2024/small-business-big-impact

[49] Link: https://www.pib.gov.in/PressReleasePage.aspx?PRID=2098452&reg=3&lang=2

Make in India Initiative

This programme, launched in 2014, aims to transform India into a global manufacturing hub attracting FDI and reducing import dependency. Supporting policies include liberalizing FDI in multiple sectors, improving the business environment (India's Ease of Doing Business ranking rose from 142nd in 2014 to 63rd in 2020), and introducing Production Linked Incentive schemes for 14 strategic sectors. While the target of raising manufacturing's share of GDP to 25 per cent has yet to be achieved, the initiative has significantly boosted FDI inflows and strengthened domestic manufacturing capabilities.[50]

Financial support for MSMEs

The Government of India has implemented numerous programmes to address funding gaps faced by MSMEs, such as the collateral-free lending scheme under the Credit Guarantee Fund Trust for Micro and Small Enterprises *(CGTMSE)* and micro-loan programmes like MUDRA *(Micro Units Development and Refinance Agency).* Launched in 2015 as part of the national financial inclusion initiative, MUDRA aims to provide collateral-free microcredit to micro-enterprises and household businesses—which account for more than 90 per cent of all enterprises in India, but struggle to access financing from traditional banks. MUDRA refinances intermediary financial institutions (banks, microfinance companies, non-banking financial institutions), enabling them to directly lend to micro-units. These loans require no collateral, typically carry preferential interest rates, offer flexible repayment terms of one to five years, and may include a six-month grace period depending on the purpose. By the end of 2023, the MUDRA programme had issued more than 520 million loans worth more than INR32 trillion, with women accounting for 68 per cent of borrowers.[51] The scheme has helped reduce reliance on informal credit markets and provided vital financial support to vulnerable groups.

▶ **India's Credit Guarantee Fund Trust for Micro and Small Enterprises Programme**

This Credit Guarantee Fund (CGTMSE) is an initiative launched by the Government of India to enhance access to finance for Micro and Small Enterprises (MSEs) by providing collateral-free credit. Established in 2000 through a partnership between the Ministry of MSME and the Small Industries Development Bank of India, CGTMSE aims to bridge the credit gap faced by MSEs, enabling them to secure loans without traditional collateral requirements.

- **Eligibility criteria for borrowing enterprises:** The definition of MSEs follows India's MSMED Act of 2006. Enterprises must operate in the manufacturing, trade, and service sectors, as well as in educational institutions and self-help organizations.[52]
- **Lender eligibility criteria:** The lender must be an institution with an agreement signed with CGTMSE. This list includes commercial, regional rural, cooperative and small finance banks, along with microfinance institutions. Each type of lending institution must meet specific criteria to participate.
- **Guaranteed loan limit:** The maximum credit limit guaranteed for a business varies depending on the type of lending institution: (i) up to INR100 million for public, private and foreign banks, (ii) up to INR20 million for small finance, regional rural and urban cooperative banks and (iii) up to INR5 million for microfinance institutions.
- **Maximum guarantee coverage**

[50] Link: https://www.ibef.org/economy/make-in-india

[51] Link: https://www.livemint.com/industry/mudra-scheme-pm-mudra-yojana-state-bank-of-india-department-of-financial-services-secretary-m-nagaraju-11744030593199.html

[52] Self-help groups are self-managed groups, typically consisting of 10–20 members, mainly women, from poor communities with similar circumstances. The objective of these groups is to collectively save, borrow and support each other to improve their economic and social conditions, as well as enhance the empowerment of members.

Table 11: Maximum guarantee coverage

Type of enterprise	Loan ≤ INR 0.5 million	Loan > INR 0.5 million to ≤ INR 5 million	Loan > INR 5 million to ≤ INR 100 million
Micro enterprises	85%	75%	75%
Women-owned enterprises	90%	90%	90%
Enterprises owned by SC/ST, persons with disabilities, located in aspirational districts, ZED-certified,[53] or transgender entrepreneurs	85%	85%	85%
Enterprises in the north eastern region, J&K, Ladakh	85% (if a micro-enterprise)	80%	75%
Other eligible entities	75%	75%	75%

- **Guarantee process**
  - Loan application submission: An MSE submits an application for an unsecured loan to a registered lending institution under the CGTMSE scheme.
  - Loan appraisal and approval: the lending institution conducts an appraisal of the application as it would for any commercial loan, including credit assessment, cash flow analysis, business model evaluation, operational history review and verification of the intended use of funds. If the application meets requirements, the lender approves the loan for the enterprise under appropriate conditions.
  - Request for CGTMSE guarantee: once the loan is approved, the lending institution submits a request to CGTMSE to guarantee the loan. The request must be accompanied by detailed information on the borrower, loan, credit file and other relevant documents. CGTMSE does not interact directly with enterprises, but only works with the lending institution.
  - CGTMSE appraisal and issuance of guarantee cover: CGTMSE reviews the lender's request and, if it meets the programme's criteria, issues a guarantee cover for the loan. The guarantee coverage ratio can be 75–85 per cent, depending on the type of enterprise, location, and gender of the owner.
  - Activation of guarantee in case of default: if the enterprise fails to repay and the loan becomes a non-performing asset, the lending institution may request CGTMSE to honour the guarantee. After verifying that procedures were followed correctly, the trust will pay the guaranteed portion (75–85 per cent of the outstanding unpaid loan balance) to the lending institution.

Promoting the formalization of household businesses

A significant step forward in the formalization of household businesses in India was implementation of the MSMEs registration system (Udyam Registration), under the amended MSMEs Development Act (2006) in 2020. Under the new regulations, all household businesses and micro-units can register to become formal enterprises through the Udyam Portal with simple procedures, no fees, no requirement to submit paper documents, and only the Aadhaar number and tax identification number are needed.[54] The key advantage of the Udyam Registration system lies in its "paperless" and "self-declaration" principle. Instead of requiring users to upload documents for verification, the system automatically cross-checks and validates information by linking to other national databases. This is a foundational policy that creates

[53] ZED stands for "Zero Defect, Zero Effect." It is an initiative and a certification standard by the Government of India for MSMEs. Businesses that achieve ZED certification are recognized as having strong management capabilities, high product quality and environmental consciousness, thereby becoming eligible for incentives under various government programmes.

[54] Link: https://cleartax.in/s/msme-registration-india

a clear and accessible legal framework, enabling millions of informal household businesses to enter the formal sector without being hindered by administrative barriers.

One of the major obstacles to formalization is concern over tax costs and procedures. To address this, India designed a special tax mechanism called the Composition Scheme under the Goods and Services Tax Act of 2017.[55] Accordingly, eligible businesses with annual revenue below INR15 million (US$180,000) can opt to pay a low fixed tax rate (as low as 1 per cent) on total turnover, without the need for input invoices and without monthly tax filings—only quarterly returns are required. This mechanism encourages household businesses to transition into formal enterprises without having to bear the burden of complex accounting or high compliance costs.

▶ Table 12: Comparison of business registration procedures in India and Viet Nam

Criteria	India	Viet Nam
Registration platform	Udyam Portal: a single, centralized national portal.	Business Registration Office of the Department of Finance. Applications can be submitted online via the National Business Registration Portal.
Procedure	Self-declaration online, maximally simplified.	Submit a complete business registration dossier according to forms specified in Circular 68/2025/TT-BTC.
Cost	Free.	Organizations and individuals registering a business must pay the business registration fee and the fee for publishing business registration content.
Dossier	No paper documents required. Only information declaration is needed.	A complete business registration dossier is required. Specific forms for each type of enterprise are stipulated in Circular 68/2025/TT-BTC.
Identification requirements	Only a national ID number (Aadhaar) and tax ID (PAN) are required.	Requires an application for registration and a valid copy of legal documents of the business owner and members.
System integration	Deep integration between population, business and tax data right from the registration stage.	There is interconnection between the business registration authority and the tax authority for automatic tax code issuance, but the business registration process still requires the organization/individual to provide more information.

Source: Author;
Note: This is based on India's Udyam Registration policy and Viet Nam's business registration regulations.[56]

In practice, Viet Nam has implemented an electronic business registration system through the National Business Registration Portal. However, applicants still face many barriers. Feedback from business associations indicates that users encounter difficulties with a complicated interface, frequent system errors and the use of hard-to-understand technical terms and legal language. In particular, after submitting an application, the waiting time for a response can be prolonged. When an application is rejected, the reasons provided are sometimes vague and do not specify which section or document needs to be corrected, forcing applicants to resubmit multiple times. Finally, support channels such as hotlines or email are often ineffective in resolving issues, leaving people discouraged from carrying out procedures online. This situation was also reflected in the 2022 enterprise survey conducted by the

[55] Link: https://www.bajajfinserv.in/gst-composition-scheme

[56] The latest regulations on business registration in Viet Nam are stipulated in Decree No. 168/2025/ND-CP (30 June 2025) on business registration and Circular No. 68/2025/TT-BTC (1 July 2025) on forms used in business and household business registration.

Business Registration Management Agency, with support from the USAID LinkSME Project. It found that 90.7 per cent of businesses faced difficulties in carrying out administrative procedures for business registration, 44 per cent did not know where to find regulations on process and procedures for business registration, 38.6 per cent said unclear procedures led to multiple amendments and supplements, 31.7 per cent believed that current regulations on business registration dossiers, order and procedures were complicated, 15.8 per cent assessed that the return of administrative procedure results was slower than stipulated and 12.6 per cent reported being asked to provide additional documents that were not specified in the regulations.[57]

Promoting digital transformation of MSMEs

The Government of India officially launched the Digital MSME Scheme in 2017, updated during 2021–22, with the objective of supporting MSMEs in shifting their production and business operations to the digital environment. According to guidelines issued by the Ministry of MSME, enterprises registered under the MSME Development Act 2006 are eligible for support covering up to 50 per cent of investment costs for accounting software, enterprise resource planning systems, order management, finance, human resources and e-commerce platforms capped at INR1 million per enterprise. In addition to financial assistance, the scheme also includes training and technology consulting to help enterprises understand and adopt digital tools suited to their operational scale.

To facilitate MSMEs' access to digital transformation, the *CHAMPIONS* platform (*Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength*) was launched under direction of the Ministry of MSME in 2020. Decision No. 12/MSME/2020 specifies the establishment of an integrated electronic platform with multiple functions: grievance redressal, technology consulting, recommendation of digitalization tools, and assessment of enterprises' readiness for digital transformation. *CHAMPIONS* serves as a "national MSME digital gateway", enabling enterprises to receive guidance on selecting technology solutions suitable for their industry, scale, and financial capacity without direct contact with regulatory agencies. This policy is also integrated with the *Udyam Registration* system to ensure that only officially registered enterprises are eligible for incentives.

2.3.2 Estonia

Estonia is an inspiring example of how a small country with limited resources can create a unique global competitive advantage through bold thinking and the strategic application of technology. After gaining independence from the Soviet Union in 1991 and facing an outdated economic and administrative legacy, Estonia made a bold decision to "leapfrog" into the future by building a fully digital government. The greatest lesson from Estonia is that a small nation can secure a global competitive edge through breakthrough policy thinking and transforming the government into an efficient service platform. The key to its success lies in systematically building trust between the government, citizens and businesses- anchored in transparency and security of the digital system. Here are some key initiatives related to private sector and SME development.

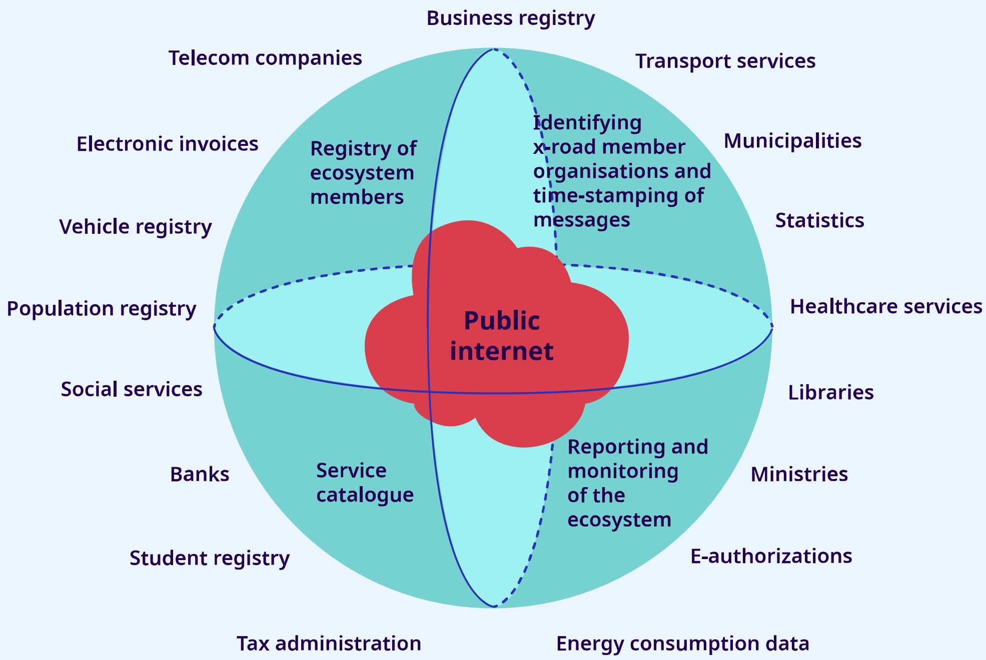
e-Estonia

The foundation of breakthrough and economic efficiency. Originating from the "Tiger Leap" initiative in 1996, which focused on providing computers and internet access to all schools, Estonia cultivated a generation of citizens equipped with digital skills and a digital mindset from an early age. The core technological infrastructure of e-Estonia is X-Road, a decentralized, secure data exchange layer that enables government and private sector databases, such as banks and telecommunications, to interact seamlessly without the need for a massive central database.

[57] Link: https://baodautu.vn/doanh-nghiep-chua-san-sang-dang-ky-kinh-doanh-dien-tu-boi-lo-ho-so-giai-quyet-cham-d180233.html

As a result, 99 per cent of Estonia's public services are available online at all times. Every citizen and resident possesses a unique electronic ID card (e-ID), serving as a universal key to access all services: from filing taxes (just a few minutes), registering a business (just a few hours), and voting online, to accessing personal health records. This model has significantly reduced administrative costs, saving an estimated 2 per cent of GDP annually, while enhancing transparency and building strong public and business trust in the government.

Figure 7: Illustration of the e-Estonia model



Source: Asian Productivity Organization. 2024. "The Art of Digitalization: A Dive into e-Estonia."

e-Residency

A catalyst for the global private sector and SMEs. Launched in 2014, e-Residency is the world's first and only programme granting a government-issued digital identity to anyone worldwide. With an e-Residency card, an entrepreneur anywhere can establish and run a company registered in Estonia and thus the European Union entirely online. The benefits include: (i) access to the European Union single market and Euro payment system, (ii) a transparent, low-cost business environment with minimal bureaucracy and (iii) an attractive tax system: 0 per cent corporate income tax on retained earnings reinvested into the company.

The e-Residency programme has become one of Estonia's most successful initiatives. By mid-2024, it had attracted more than 117,000 e-residents, who have established more than 32,200 companies in Estonia. Since its launch, the programme has generated a direct economic impact of €244 million for the State budget, including €67.4 million in 2023 alone. The total programme-related costs, including contributions from government partners, amounted to €7 million in 2023, resulting in a nearly 10-fold return on investment for the Estonian Government that year. In addition, companies founded by e-residents generated more than €11 million in revenue for local Estonian service providers (accounting, legal consulting) in 2023.[58]

[58] Link: https://www.e-resident.gov.ee/blog/posts/e-residency-applications-and-company-incorporation-increased-7-in-first-half-of-2024/

AI Leap

AI skills and applications in education. Building on the success of Tiger Leap implemented over the past 30 years, Estonia announced an ambitious nationwide AI education programme called AI Leap 2025. Scheduled to launch on 1 September 2025, the initiative will provide students and teachers with free access to the world's leading AI applications, along with the skills needed to use them effectively in learning. This marks the next chapter in Estonia's journey toward a digital society to maintain its excellence in education.

The initial rollout, from 1 September 2025, will cover 20,000 upper secondary students in Grades 10–11 and 3,000 of their teachers. The plan is to expand the programme the following year to include vocational schools and new Grade 10 students, adding another 38,000 students and 2,000 teachers to the cohort.[59]

▶ Table 13: Summary of international experience in SME and private sector development in India and Estonia

Country	Key highlights	Main policies and initiatives
India	SMEs are the backbone of the economy, contributing nearly 30 per cent to GDP and 45 per cent to total export value. The government actively develops the startup ecosystem, microfinance and formalization support for household businesses to promote SME and private sector growth.	• Startup India Initiative: Simplifies procedures, offers tax exemptions, supports intellectual property protection, and operates the "Fund of Funds for Startups" to attract private venture capital. • Make in India Initiative: Positions India as a manufacturing hub, liberalizes FDI, improves the business environment and implements production-linked incentive programmes for strategic sectors. • Financial support: CGTMSE for collateral-free loans and MUDRA microfinance programme. • Promoting digital transformation: Launch of the Digital Saksham programme to enhance MSME digital skills, implementation of the CHAMPIONS platform integrating multiple digital functions to support enterprise digitalization. • Promoting household business formalization: Through Udyam Registration (fully online, free MSME registration) and conditional credit programmes linked to formalization.
Estonia	A small country with groundbreaking achievements in technology, building a fully digital government. Policies focus on digital infrastructure, online public services and comprehensive digital education.	• e-Estonia: X-Road platform enabling secure data exchanges, 99 per cent of public services available online, e-ID (electronic ID) allowing tax filing, business registration and e-voting. • e-Residency: Grants a global digital identity, enabling individuals worldwide to establish and manage companies in Estonia (and the European Union) entirely online, accessing the European market and benefiting from a 0 per cent corporate income tax on reinvested profits. • AI Leap: Nationwide AI education programme providing free access to AI applications for students and teachers.

Source: Author

[59] Link: https://e-estonia.com/estonia-announces-a-groundbreaking-national-initiative-ai-leap-programme-to-bring-ai-tools-to-all-schools/

3. International lessons for Viet Nam

From the analysis of cases in Northeast Asian countries and territories (Republic of Korea, Taiwan Province of China and China), Southeast Asian nations (Singapore, Indonesia, Thailand), and others with successful private sector and SME development initiatives, such as India and Estonia, several core lessons can be drawn.

Role of the State in strategic orientation and support

The experiences of Republic of Korea, Taiwan Province of China, and China show that in the early stages of industrialization and economic development, the State and authorities' role is indispensable. The State not only creates the environment, but also proactively guides and invests in strategic industries as well as supports domestic capacity building. This is particularly important for Viet Nam, which currently lacks leading enterprises in supply chains and has a weak supporting industry base. However, this role should be executed smartly to avoid micro-intervention or creating competitive barriers, as seen in China's lessons on controlling large conglomerates to ensure fair competition.

Institutional reform and a favourable business environment

Successful countries prioritize administrative reform, procedural simplification and ensure transparency and fairness in the business environment. Singapore is a model to reduce compliance burdens through tiered accounting and auditing regulations and expediting business registration procedures. China has also achieved notable success by shortening the time needed to establish an enterprise and applying a "Market Access Negative List" to reduce market entry barriers. This demonstrates that to encourage private sector growth, a clear and accessible legal framework with low compliance costs is essential, especially important for Viet Nam to address informal costs and inconsistent regulations.

Improving access to finance

Unlocking access to finance for SMEs is a common challenge for all countries, including Viet Nam. Models like Republic of Korea's KODIT and Taiwan Province of China's SMEG have proven effective in addressing financial "market failures" by providing credit guarantees based on assessments of technological capability and growth potential rather than just collateral. Moreover, the State acting as a seed investor through "Funds of Funds", such as Republic of Korea's KFoF or China's Innofund, has successfully attracted private capital into startups and innovative SMEs.

The government and authorities play a crucial role in promoting innovation and technology transfers for SMEs

As SMEs often lack resources to invest in long-term R&D, Taiwan Province of China has addressed this issue remarkably well through ITRI, which operates as an outsourced R&D laboratory for the entire economy. ITRI not only conducts contract-based research, but also proactively develops core technologies that are later transferred or spun-off into leading technology companies such as TSMC. China, on the other hand, has leveraged Innofund not only as a financing tool, but as a government 'endorsement' mechanism, helping high-tech SMEs enhance their credibility and attract private investment with a leverage ratio of up to 1:11. In addition, strong R&D tax incentives, allowing deductions of up to 200–300 per cent of expenses, as seen in Indonesia and Singapore, serve as direct instruments to encourage businesses to invest in technology.

Supporting enterprises to reach international markets

International experience shows that promoting SME exports and global integration requires direct and effective government support. Republic of Korea's "Export Voucher" programme is a prime example of a business-centred policy, empowering companies to choose services most relevant to their needs, thus optimizing State budget use. Similarly, China's "Going Global" policy as well as Singapore and Thailand's comprehensive trade promotion programmes, combining financial support, market information and partner connections have proven effective. Viet Nam should study and adopt such models to help SMEs overcome initial barriers to entering global markets and participate more deeply in global supply chains.

Supporting SMEs in accessing and expanding domestic markets. International experience shows that governments can effectively generate demand in this market. Both China and Republic of Korea have strategically employed public procurement, with clear legal provisions requiring government agencies to allocate a minimum share of their budgets to SMEs (targets of at least 30 per cent in China and more than 50 per cent in Republic of Korea). In addition, China provides a strong example of supporting SMEs in accessing its vast domestic market through the promotion of e-commerce platforms. By fostering ecosystems such as Alibaba and Pinduoduo, the government has helped lower entry barriers, allowing millions of small businesses to reach customers nationwide at minimal cost.

Enhancing capacity and linkages between SMEs and FDI enterprises

Singapore's PACT programme shows that government co-funding when FDI enterprises voluntarily transfer technology and know-how to local SME suppliers benefits both sides. Likewise, Thailand's policy of linking investment incentives for FDI to conditions on local supplier use and technology transfers is an effective tool. The lesson for Viet Nam is to design specific, conditional incentives so that FDI enterprises are motivated to seek out, cooperate with and build capacity of domestic partners, enabling Vietnamese SMEs to progressively integrate into global value chains.

Developing high-quality human resources and promoting digital transformation

China's strategy of "revitalizing the nation through science and education" and its investment in world-class universities highlight the importance of S&T human capital. Singapore is also a model for supporting digital transformation through comprehensive programmes, diverse funding packages and its SkillsFuture initiative for digital skills training. Notably, Estonia has shown that a small country can gain global competitive advantages by building a fully digital government (e-Estonia) and breakthrough initiatives like e-Residency, which help SMEs access global markets and significantly cut compliance costs. The widespread adoption of digital skills and AI applications, such as Estonia's AI Leap, is a key factor for sustainable development in the digital age.

Encouraging formalization through benefits and simplicity, not administrative orders

India's experience is particularly valuable, with its Udyam Registration an entirely free, paperless online business registration portal, combined with a simple presumptive tax regime (Composition Scheme). This approach has helped household businesses transition to the formal sector without being burdened by procedures and costs. Similarly, Singapore's tiered accounting and auditing regulations or Indonesia's preferential turnover tax rate for micro-enterprises are effective tools. The lesson for Viet Nam is to design attractive transition policy packages focused on maximum simplification of registration procedures, applying tax and accounting regimes suited to micro-enterprises, and ensuring newly formalized businesses can immediately access State support programmes.

Effective SME support policies are often embedded with social objectives, such as promoting sustainable employment and inclusive business practices

Supporting SMEs is not only about economic growth, it is also a tool to ensure social welfare and equity. Republic of Korea has introduced innovative initiatives to help SMEs retain talent and create quality jobs. The Youth Tomorrow Filling Credit programme is a savings mechanism with joint contributions from the government, employers and employees, designed to increase income and encourage young workers to stay longer in SMEs. The country’s employment platform, Work-Net, also proactively verifies the quality of job postings (minimum wage, non-discrimination) to ensure that workers, especially women and vulnerable groups, can access decent jobs. Similarly, India’s financial programmes strongly demonstrate inclusiveness. The MUDRA microcredit scheme, with women comprising 68 per cent of borrowers, has significantly contributed to women’s economic empowerment, while the CGTMSE credit guarantee fund applies higher guarantee coverage for enterprises owned by women or disadvantaged groups.

4. Policy recommendations based on international experience

International experience shows there is no single model for optimal SME and private sector development. Viet Nam, positioned "in between" the Northeast Asian and Southeast Asian growth models, has a unique opportunity to selectively combine the most effective elements from both approaches. Based on international lessons captured by this study and Viet Nam's current context, specific policy proposals are grouped as follows:

4.1 Policy group on improving the business environment

4.1.1 Context in Viet Nam

While the Government of Viet Nam has made significant reform efforts to improve the business environment, its legal system and institutional framework face notable bottlenecks that hinder development of SMEs and the private sector. One of the major challenges lies in complex and inconsistent administrative and legal procedures, which require enterprises to spend substantial time and costs to complete business registration, licensing, investment approvals or tax obligations. A 2022 survey by the Business Registration Management Agency revealed that up to 90.7 per cent of enterprises encountered difficulties when carrying out administrative procedures for business registration, with 38.6 per cent reporting that opaque processes led to repeated amendments and supplementation of application dossiers.

Online business registration in Viet Nam, while theoretically convenient, remains a challenging process. Users continue to face difficulties with a complicated interface, frequent system errors, and the use of technical and legal jargon that is challenging to understand. Furthermore, although Viet Nam has developed an enterprise identification code, it is only currently connected to a limited number of systems such as tax, banking, the national public service portal and social insurance. Many other areas – especially specialized fields such as food safety, fire prevention and fighting, construction and environment – are still not integrated with this identification code. This creates difficulties for State management and constitutes a major barrier to building an interconnected and seamless public service system for enterprises.

Business conditions in Viet Nam also remain challenging, creating considerable burdens and barriers for enterprises. The country still maintains a list of conditional business investment lines, as stipulated in the 2020 Law on Investment - Appendix IV, with 227 industries and sectors. Moreover, while the Law on Investment specifies the industries, the actual conditions are spread across more than 100 different laws, decrees and circulars, making it difficult for enterprises to search, consolidate and fully understand the requirements for lawful operation. Viet Nam also lacks a mechanism to differentiate by enterprise size (micro, small, medium), applying the same business conditions across the board.

4.1.2 Policy recommendations based on international experiences

Recommendation 1

- Lead agency: Ministry of Finance
- Implementation timeline: Medium to long-term

Continue administrative procedure reform towards streamlining and transparency. Drawing on China's "Single Window, Single Form" experience and Thailand's SME One ID model, Viet Nam should accelerate development of a unique enterprise identification system capable of integrating data across all State management agencies (tax, customs, social insurance, environment, construction). This would allow enterprises to declare information only once, significantly reducing compliance times and costs. Strong application of information technology is required to fully digitize processes, minimize direct interactions between enterprises and public officials, and thereby limit informal costs.

Recommendation 2

- Lead agency: Ministry of Finance
- Implementation timeline: Short-term

Apply the "Market Access Negative List" principle. Referring to China's experience, Viet Nam should develop and publish a list of industries and business lines that are prohibited or restricted. For those not included in this list, enterprises should be free to operate without additional sub-licenses, thereby significantly reducing market entry barriers and increasing predictability for investors.

Recommendation 3

- Lead agencies: Specialized ministries will lead the review and amendment of current regulations to reduce compliance burdens on enterprises. The Ministry of Finance will take the lead – in coordination with other ministries, sectors, and localities – to monitor implementation and report results to the Prime Minister.
- Implementation timeline: Short-term

Classify SMEs to develop appropriate regulations and reduce compliance burdens. To ease compliance burdens for SMEs, regulatory tiering is an effective solution, whereby legal requirements are adjusted and applied differently depending on the size, nature of operations and risk level of the enterprise. Singapore has successfully implemented this policy by tiering accounting and auditing regulations for SMEs. In the accounting sector, Viet Nam has also adopted this approach by issuing circulars guiding accounting regimes for different types of enterprises.[60] Therefore, this policy should be expanded to other areas to help reduce compliance burdens for SMEs, enabling them to focus resources on business operations. For example, in certain specific industries,[61] regulatory authorities may ease business requirements and conditions such as minimum capital, premises and staffing to encourage SME business activities.

4.2 Policy group on access to financial resources

4.2.1 Context in Viet Nam

The ability of SMEs to access bank credit remains limited. According to the 2024 PCI report, more than half of SMEs face difficulties obtaining loans due to the lack of collateral, credit histories or failure to meet documentation and procedural requirements. Meanwhile, the credit appraisal process remains lengthy and rigid, causing businesses to miss investment and business expansion opportunities. In addition, the absence of credit information-sharing mechanisms and enterprise credit rating systems increase risks for banks, leading to a tightening of credit for the SME sector.

Given the challenges in accessing traditional credit channels, various support mechanisms and alternative financing channels have been introduced, yet their effectiveness remains limited. Currently, Viet Nam's

[60] Circular No.132/2018/TT-BTC: Applicable to micro-enterprises (production and business enterprises in the fields of commerce, services, and agriculture), Circular No. 133/2016/TT-BTC: Applicable to small and medium-sized enterprises (excluding those in special sectors or with public interest) and Circular No. 200/2014/TT-BTC: Applicable to large or small enterprises that voluntarily apply the full accounting regime.

[61] For example. Decree No. 23/2021/ND-CP stipulates that an enterprise must place a deposit of VND300 million to meet one of the conditions to be granted a license to operate an employment service business. Decree No. 96/2016/ND-CP (Article 11) stipulates that an enterprise engaged in the security service business must have a legal capital of VND2 billion.

SME credit guarantee funds operate ineffectively, mainly due to credit guarantee regulations being overly focused on collateral, the small scale of fund capital (Viet Nam has 25 credit guarantee funds with a total capital of only VND1,500 billion) and restrictions imposed by capital adequacy regulations. Some funds even consider dissolution plans due to failure to meet statutory charter capital requirements.

Similarly, for innovative startups, the VC market remains nascent and constrained by the legal framework. In practice, Viet Nam issued Decree No. 38/2018/ND-CP to create a legal corridor to promote establishment of innovative startup investment funds. However, after more than seven years of implementation, the number of established funds remains modest, with only 33 funds nationwide and total contributed capital of VND413 billion. Several legal obstacles have been identified, such as: (i) investment funds not permitted to provide loans to startups, thereby limiting an important source of financing, (ii) State budget capital contributions to funds not realized in practice due to a lack of detailed guidance and (iii) the limit of 30 investors for fund establishment has restricted capital mobilization.

4.2.2 Policy recommendations based on international experiences

Recommendation 1

- Lead agency: Ministry of Finance
- Implementation timeline: Short-term

Establish a national Credit Guarantee Fund for SMEs. Study the KODIT model of Republic of Korea and the SMEG model of Taiwan Province of China to establish a national credit guarantee fund operating in a centralized and professional manner. The fund should have sufficiently large capital, consolidate resources by integrating local funds into a branch system, and implement mechanisms to supplement resources from reserve funds and refinancing to increase charter capital, thereby improving operational efficiency. The fund may consider adopting a more sustainable financial structure with contributions from commercial banks and a professional appraisal process. It should focus on assessing a business's technological capacity, market potential and overall financial health instead of relying solely on collateral. A clear risk-sharing mechanism with banks should be applied to encourage thorough due diligence and lending.

Recommendation 2

- Lead agency: Ministry of Finance
- Implementation timeline: Short-term.

Develop the venture capital market through the "Fund of Funds" model. Viet Nam can refer to this Republic of Korea model and China's Innofund. The government may establish seed funds or Fund of Funds to invest in private venture capital funds, thereby attracting private capital into innovative startups and SMEs. This mechanism helps reduce risks for private investors and promotes the formation of a vibrant venture capital ecosystem. In addition, it is necessary to revise Decree No. 38 to facilitate the establishment and operation of startup investment funds.

Recommendation 3

- Lead agency: Ministry of Finance
- Implementation timeline: Short-term

Diversify capital access channels for SMEs. In addition to bank credit, it is necessary to promote non-bank financial channels such as financial leasing, supply chain financing, and the development of peer-to-peer (P2P) lending platforms, as well as regulated crowdfunding. Initially, pilot implementation can be carried out under a sandbox mechanism at financial centres in Danang and Ho Chi Minh City.[62]

[62] Viet Nam is promoting development of two key financial centres in Ho Chi Minh City and Danang, leveraging a controlled testing mechanism (sandbox) to drive innovation. While Ho Chi Minh City is positioned to become a large-scale international financial hub, with the sandbox prioritizing FinTech areas such as digital assets and peer-to-peer lending, Danang is orienting itself as a specialized financial centre for green and high-tech finance. This parallel approach is expected to not only create a diverse and complementary financial ecosystem, but also transform Viet Nam into an attractive destination for global financial capital and technology.

4.3 Policy group on promoting science and technology and digital transformation

4.3.1 Context in Viet Nam

Despite notable improvements in recent years, S&T activities and digital transformation among SMEs in Viet Nam face numerous limitations, which continue to hinder their competitiveness.

One of the key reasons is Viet Nam's low investment in R&D. In 2024, R&D expenditure accounted for only 0.7 per cent of GDP—significantly lower than countries in the region such as Singapore, which earmarked 2.16 per cent of GDP in 2020. This limited investment inevitably leads to weak and shallow innovation activities across the economy, including within enterprises. Furthermore, collaboration between research institutes, universities and the private business sector remains limited, creating a significant gap. As a result, scientific research outcomes are often difficult to commercialize or apply in real-world production and business contexts. This highlights the absence of an effective "bridge between research and commercialization", such as Taiwan Province of China's ITRI model. In addition, the science, technology, and digital transformation workforce is insufficient in quantity and lacking in quality. As a result, the economy is facing a shortage of talent in high-tech fields, which undermines the ability of private enterprises to absorb and transfer technology effectively. Lastly, although digital transformation is an inevitable trend, most SMEs in Viet Nam struggle to adopt digital technologies in their operations. This is not only due to a lack of financial resources, but also due to inadequate skills and a lack of robust government support programmes. All these limitations form a major barrier, making it difficult for Vietnamese SMEs to leverage advancements in science, technology and digital transformation to create breakthrough competitive advantages.

4.3.2 Policy recommendations based on international experiences

Recommendation 1

- Lead agency: Ministry of Finance
- Implementation timeline: Short-term

Strengthen investment and incentives for R&D in SMEs. Drawing lessons from Republic of Korea and Singapore, Viet Nam should introduce stronger tax deduction policies for R&D expenditures of SMEs, and remove caps for SMEs operating in high-tech or priority sectors. In addition to allowing actual R&D costs to be deducted from corporate income tax, Viet Nam could adopt Singapore's approach by introducing support mechanisms for unprofitable SMEs and startups. These mechanisms would allow a portion of eligible R&D expenses to be converted into government cash grants, reimbursed at a certain rate (such as 15–20 per cent).

Recommendation 2

- Lead agencies: Ministry of Science and Technology, Ministry of Education and Training
- Implementation timeline: Medium to long-term

Develop applied research institutes and technology transfer centres. Referencing Taiwan Province of China's ITRI model, Viet Nam should invest in applied research institutes capable of conducting strategic R&D, transferring technology to businesses, and potentially spinning-off new tech companies. These institutes should operate under a hybrid financing model – combining State budget and industrial contracts – to ensure sustainability and market relevance.

Recommendation 3

- Lead agency: Ministry of Education and Training
- Implementation timeline: Medium to long-term

Make strategic investments in science and technology education. Learning from China, Viet Nam needs a robust national strategy to develop a S&T workforce, from general to higher education. This includes increased investment in key universities, establishment of critical national laboratories and promotion of applied scientific research. Policies should be put in place to attract and retain talent, especially in high-tech fields.

Recommendation 4

- Lead agencies: Ministry of Science and Technology, Ministry of Finance
- Implementation timeline: Short-term

Support businesses in digital transformation. Implement comprehensive digital transformation support programmes for SMEs, similar to Singapore's SME Go Digital, Start Digital and Grow Digital initiatives. Provide funding packages for SMEs to purchase IT solutions, management software and AI applications. Particular emphasis should be placed on digital skills training for workers and business owners through programmes modeled after Singapore's SkillsFuture.

▶ Box 6: Proposal for developing a national digital skills enhancement programme modeled after Singapore's SkillsFuture Initiative

Viet Nam is undergoing a profound economic transformation, aiming to become a high-income country with a well-developed digital economy. However, one of the greatest challenges lies in an acute skills gap, particularly in digital skills, within the workforce. Singapore's SkillsFuture programme offers valuable lessons. The country has successfully fostered a nationwide lifelong learning movement, empowering individuals and businesses to upgrade their skills. This model is particularly relevant for Viet Nam, where a strong policy push is needed to trigger a skills development revolution that meets the demands of the Fourth Industrial Revolution. Viet Nam could develop a similar initiative under the name "SkillsFuture Viet Nam."

- **Objective:** To build a nationwide lifelong learning movement that proactively equips and enhances digital skills for the entire workforce. The programme aims to meet the demands of the digital economy, improve labour productivity, and strengthen national competitiveness.
- **Target groups:** The programme targets two main groups, following the model of Singapore. Individual workers: every Vietnamese citizen aged 25 years and above will receive an initial credit (VND5,000,000, for example) in a personal "Future Skills Account." Businesses, especially SMEs: will be eligible to receive a substantial credit amount (up to VND100,000,000) through the "Enterprise Credit for Future Skills" programme to co-fund digital skills training for employees.
- **Operational mechanism:** A "National Skills Portal" will be established as the central digital platform to manage the entire programme. Citizens and enterprises will log in using their digital ID (VNeID) to check credit balances, search for and register for training courses. The platform will manage each individual's skills account, publish a list of accredited training providers and courses (focusing on skills such as digital literacy, data analytics), and process credit applications from businesses to co-finance digital upskilling programmes for their workforce.

Source: Author

4.4 Policy group on strengthening linkages between SMEs and FDI enterprises

4.4.1 Context in Viet Nam

Linkages between the FDI and SME sectors in Viet Nam remain limited and lack strong, sustainable integration. This separation is clearly reflected in the economic structure, where the FDI sector, despite accounting for only 3 per cent of enterprises, employs up to 35 per cent of the formal workforce[63] and plays a dominant role in the export of high-tech products. In contrast, the domestic economic sector primarily operates in traditional industries, serves the domestic market, and participates only marginally in global value chains.

This situation is partly due to the limited intrinsic competitiveness of Vietnamese SMEs, which confines most to only participating in low value-added stages of production. However, a key contributing factor lies in shortcomings within the policy framework. Support mechanisms, such as Decree No. 111/2015/ND-CP on supporting industries, have not achieved full potential due to challenges in identifying eligible beneficiaries. More notably, Viet Nam's legal system still lacks binding provisions that require FDI enterprises to transfer technology or commit to a specific roadmap for increasing local content. Existing policies mainly provide incentives, but do not create a sufficiently strong mechanism to promote substantive linkages. As a result, the spillover effects of technology, managerial skills and capital from the FDI sector to the domestic economy remain limited, affecting the synchronized and sustainable development of the entire economy.

4.4.2 Policy recommendations based on international experiences

Recommendation 1

- Lead agency: Ministry of Finance
- Implementation timeline: Short-term

Implement a capacity-building programme for Vietnamese SMEs. Drawing on Singapore's PACT programme model, the government can roll out a co-funded initiative for projects where FDI enterprises actively collaborate to train, transfer technology and share management processes, thereby helping domestic SME suppliers enhance their capabilities.

▶ Detailed proposal for a partnership model to enhance the capacity of Vietnamese SMEs based on Singapore's PACT Model

Managing agencies

- Lead agency: The Ministry of Finance serves as the focal point, responsible for developing the policy framework, allocating the budget, and providing overall coordination of the programme.
- Coordinating agencies:
- Ministry of Industry and Trade: collaborates in identifying priority sectors and industries, and facilitates business connections,
- Ministry of Science and Technology: supports appraisals of projects related to technology transfers and innovation
- Provincial/municipal People's Committees: coordinate implementation, introduce enterprises and monitor projects locally and (iv) VCCI: acts as a programme partner by connecting leading FDI enterprises with potential SMEs through its member network.

This approach is similar to Singapore, where *Enterprise Singapore* serves as the main coordinating body, helping to avoid fragmentation and ensuring effective policy implementation.

[63] Link: https://vneconomy.vn/techconnect/lien-ket-gia-tri-giua-fdi-voi-doanh-nghiep-trong-nuoc.htm

Programme resources

- The programme will operate under a PPP model, mobilizing resources from three sources:
- Government: State budget allocated to the lead agency to co-fund part of the costs for approved cooperation projects
- Leading FDI enterprises: contribution of financial resources, technology, expertise, expert time and project management costs and
- Participating SMEs: provision of counterpart funding and human resources to receive, implement, and sustain improvements.

Table 14: Selection criteria for enterprises/projects participating in the programme

Subjects	Criteria
Lead firms	• Must be an FDI enterprise operating and headquartered in Viet Nam. • Must demonstrate a strong commitment and have a clear plan for developing local SME suppliers or partners. • Must possess sufficient resources (financial, human, technological) to lead and manage the cooperation project. • Must be willing to share expertise, technology and best management practices.
SME partners	• Must be a legally registered and operating enterprise in Viet Nam, meeting the SME criteria as defined by Vietnamese law. • Must have a sound financial position and be willing to invest counterpart resources into the project. • Must operate within the supply chain or in a field related to the lead FDI enterprise, with clear potential for growth.
Cooperative projects	• Must focus on clearly transforming and enhancing the capabilities of SMEs. • Must deliver measurable outcomes (increased productivity, reduced costs, new product development, compliance with international certifications).

Table 15: Proposed incentive mechanism

Cost categories	Proposed financial support level	Examples
Services & human resources	Up to 70 per cent of eligible costs	• Consultancy fees for optimizing SMEs' production processes and quality management. • Costs for specialized training of SME employees.
Software & materials	Up to 70 per cent of eligible costs	• Expenses for purchasing licenses for supply chain management software, enterprise resource planning systems, digital transformation and green transition. • Costs of raw materials for trial production of new products in accordance with FDI enterprise standards.
Hardware & equipment	Up to 50 per cent of eligible costs	• Expenses for purchasing new automated machinery and equipment to meet the technical and quality requirements of FDI enterprises.

The total support for each project should have a specific cap to ensure effective budget management. In addition to direct financial incentives, FDI enterprises actively participating in the programme may also be entitled to other indirect incentives, such as consideration for investment incentives or participation in public procurement activities.

Recommendation 2

- Lead agencies: Ministry of Finance, Ministry of Industry and Trade
- Implementation timeline: Medium to long-term

Link FDI incentives to local supplier development. To strengthen connections between FDI enterprises and domestic businesses, particularly SMEs, FDI investment incentive policies should be adjusted to tie benefits to the level of inputs from local supply chains and contributions to developing the domestic supplier ecosystem.

Viet Nam can draw on the experiences of Thailand's Board of Investment, where FDI investors receive higher incentives if they meet certain criteria on local content, technology transfers, use of domestic suppliers' products and services or support domestic business training. Specifically, a system should be established to assess and rank FDI enterprises using quantitative and qualitative indicators such as: (i) the share of domestic value-added in total input costs, (ii) the number and value of contracts signed with domestic SMEs annually, (iii) the localization rate of equipment, components and materials used in production, (iv) the number of training, technology transfer and technical support activities provided to domestic suppliers and (v) the level of participation in and support for industrial clusters or supplier development initiatives. Based on these indicators, FDI enterprises will be classified and granted different levels of incentives, with those making the highest contributions prioritized for access to prime industrial land, extended corporate income tax incentives, or other benefits related to land rental and financing access.

Recommendation 3

- Lead agency: Ministry of Industry and Trade
- Implementation timeline: Short-term

Optimizing a key database to support processing, manufacturing, and supporting industries in Viet Nam. While Viet Nam has established a database to connect large enterprises and multinationals with domestic suppliers,[64] the Ministry of Industry and Trade-managed system has not realized its potential due to outdated data, limited participation from enterprises and inefficient search functions. Furthermore, coordination for information updates among the ministry, provincial Departments of Industry and Trade, and industry associations is also opaque, leading to fragmented data that does not fully reflect the capabilities of enterprises within the supply chain.

To enhance its operating mechanism, there is a need to designate the ministry as the lead agency with full responsibility, issuing mandatory coordination regulations for provincial departments and associations, linking enterprise data-update requirements to access government support programmes, standardizing the dataset according to international practices and upgrading the technological platform by integrating business registration and tax systems, while enhancing the user interface. This approach optimizes resources, increases data transparency and strengthens supply-demand linkages within industrial value chains.

[64] Link: https://laodong.vn/kinh-doanh/co-so-du-lieu-nganh-cong-nghiep-tro-thanh-mo-vang-cho-doanh-nghiep-813866.ldo [Vietnamese]

4.5 Policy group on promoting the development of medium and large enterprises, and regional and global-scale private economic groups

4.5.1 Context in Viet Nam

One of the structural bottlenecks in Viet Nam's private sector is the absence of mid-sized and leading enterprises. The overall picture paints a pronounced imbalance: by the end of 2022, micro-enterprises (67.1 per cent) and small enterprises (26.4 per cent) dominated the landscape, while medium-sized enterprises accounted for only a modest 3.8 per cent and large enterprises (2.7 per cent). This shortage creates a significant "gap" in the enterprise structure and represents a serious barrier, as mid-sized enterprises are a crucial bridge for investing in technology and participating in global value chains. Furthermore, Viet Nam lacks leading firms with sufficient technological, financial and market capabilities to guide supply chains and support the growth of smaller businesses, making it difficult for the domestic private sector to enhance its capabilities and engage in high-value segments.

4.5.2 Policy recommendations based on international experiences

Recommendation 1

- Lead agency: Ministry of Finance
- Implementation timeline: Short-term

Establish a "National Leading Enterprises" programme. This strategic initiative is proposed to address one of the most critical bottlenecks in Viet Nam's economy: the lack of mid-sized and leading private enterprises. Its main objective is to identify and select a group of high-potential SMEs (for example, targeting 150 enterprises over five years) to provide a comprehensive, intensive and "tailor-made" support package. Through special assistance in capital, technology, market development and advanced management, the programme aims to build "hidden champions" and regionally significant private economic groups capable of leading value chains and competing on equal footing in international markets. Viet Nam could draw lessons from Taiwan Province of China's "Backbone Enterprises" model in developing this initiative.

The programme could be managed by a coordinating office, under the Ministry of Finance, responsible for publicizing information, receiving applications and serving as the central point for coordinating all support activities. It would establish a National Appraisal Council comprised of respected experts from ministries, business associations, research institutes and successful entrepreneurs to ensure that the selection process for participating enterprises is transparent, objective and fair.

The programme would target high-growth potential medium-sized private enterprises. Selection would be based on criteria including: possession of core, unique and hard-to-replace technological capabilities, demonstrated continuous investment in R&D, international competitiveness and a clear brand-building strategy, solid financial foundation and stable operational history and maintaining main production and business operations in Viet Nam.

Selected enterprises could receive special support packages, including: (i) consulting support for Initial Public Offering preparation to access public capital markets, (ii) funding to hire top consulting firms to develop enterprise management systems according to international standards, (iii) co-financing for establishing a first overseas representative office or showroom in target markets and (iv) partial salary support to attract outstanding Vietnamese experts and scientists from abroad to return and contribute to these enterprises.

Recommendation 2

- Lead agency: Ministry of Finance
- Implementation timeline: Short-term

Develop a leadership capacity-building programme for SMEs. Building on the successful platform of Singapore's Executive Leadership for Transformation programme, Viet Nam could establish a "Pioneering Leadership" programme with the core objective of equipping high-potential SME leaders with strategic thinking, a global outlook and modern management capabilities.

The target participants of the programme are leaders of SMEs experiencing rapid growth, operating in high-value potential sectors such as manufacturing and processing, technology, logistics, renewable energy, high-tech agriculture and export services. The programme should prioritize enterprises committed to business model transformation, innovation, ESG adoption, digital transformation or integration into global value chains.

To ensure the programme's feasibility and ability to attract outstanding leaders, the State will play a facilitative role through financial support, covering 70–90 per cent of tuition fees, similar to Singapore's model, with the remaining portion co-financed by participating enterprises. In return, enterprises must commit to attending at least 80–90 per cent of the programme's duration. Upon graduation, alumni are expected to dedicate time to serve as mentors for smaller business owners in other government-supported entrepreneurship programmes, thereby creating a sustainable development loop and knowledge spillover.

4.6 Policy group on market access and export support

4.6.1 Context in Viet Nam

One of the challenges faced by SMEs and the private sector in Viet Nam is market access, both domestically and internationally. Many enterprises lack market information, have weak marketing capabilities, have not built strong brands and face difficulties participating in large supply chains. According to a survey of manufacturing and processing enterprises in 2025's second quarter by the National Statistics Office, finding and expanding output markets was identified as the biggest challenge. SMEs reported difficulties in identifying domestic customers and partners, as well as accessing export markets, due to technical standards, traceability regulations and limited international negotiation capacity. Moreover, many enterprises have not fully utilized e-commerce platforms or lack digital-skilled personnel to implement effective online marketing strategies. Their ability to participate in regional and global value chains remains limited, especially for businesses in manufacturing, processing, agriculture, and handicrafts. This situation makes enterprises vulnerable to fluctuations in domestic and international markets and hinders their ability to achieve long-term sustainable growth.

4.6.2 Policy recommendations based on international experiences

To support Vietnamese SMEs and the private sector in expanding into international markets and participating more deeply in global value chains, proactive and effective policies are needed to support exports and market access.

Recommendation 1

- Lead agency: Ministry of Industry and Trade
- Implementation timeline: Short-term

Implement an "Export Voucher" programme. Drawing on Republic of Korea's experiences, Viet Nam should adopt an electronic "voucher" model for SMEs, allowing them to select suitable export support services (such as market research, legal consulting, marketing, logistics) from a list of government-approved providers. The government can finance a large portion of the costs (70–90 per cent), with the remainder co-financed by the enterprises. Operating the programme on an online platform will ensure transparency, efficiency and minimal administrative procedures.

Recommendation 2

- Lead agency: Ministry of Finance
- Implementation timeline: Short-term

Support access to e-commerce platforms and global supply chains. To help Vietnamese SMEs overcome barriers related to costs, market access and finance, while building an effective enterprise support ecosystem, there is a need to develop and implement a Viet Nam SME Privilege Hub, drawing lessons from Thailand’s “SME Privilege Club” model. This model will serve as a connection-sharing-benefit platform between SMEs and the support ecosystem, which includes government agencies, universities and research institutes, financial and international organizations, e-commerce platforms and large enterprises.

The proposed model focuses on three main support pillars. First, the “Increase Productivity – Reduce Costs” pillar aims to help enterprises improve production and operational efficiency by collaborating with technical service providers, universities and technology companies to deliver testing services, technology innovation consulting, and basic digital transformation packages (such as ERP, CRM and accounting software) at preferential costs. Additionally, member SMEs receive a 10–30 per cent discount from logistics partners to reduce domestic and international shipping costs. The second pillar, “Market Expansion – Increased Networking Opportunities”, provides participating SMEs with support to place their products in modern retail chains such as WinMart, Co.opmart and AEON under more favourable commercial terms, while also gaining access to online marketplaces with lower commission fees, advertising costs and booth fees. The third pillar, “Access to Finance and Financial Capability Enhancement”, involves collaboration with commercial banks and SME development funds to create preferential credit packages (interest rates 1–1.5 per cent lower than the market) for eligible SMEs, prioritizing those with good credit records, transparent financials or sustainable business certifications (ESG practices, green production). Participants will also receive training in financial planning, cash flow management and financial risk assessment. Notably, the model can apply non-traditional credit rating methods based on actual transaction data from e-commerce platforms or internal management systems to support micro-enterprises and startups yet to access formal credit.

Regarding the operational mechanism, the proposed model is suggested to be led by the Ministry of Finance (through APED), in coordination with relevant agencies, industry business associations, local authorities and implementing partners. Research institutes, universities, large enterprises and international organizations can participate as technical and expert partners. Registered enterprises will be reviewed and granted access to an online support platform, through which they can enjoy benefits tailored to their sector, location and actual needs. The core technology platform for programme operation consists of two main components: a Unified Enterprise Identification System similar to Thailand’s “SME One ID”, and a platform for enterprises to access and utilize their privileges.

Recommendation 3

- Lead agency: Ministry of Industry and Trade
- Implementation timeline: Short-term

Develop a “Going Global” policy and support trade promotion. Drawing on China’s experiences, Viet Nam needs a national “Going Global” policy to assist SMEs and the private sector in expanding into international markets. This should include export tax reductions for priority manufacturing sectors, provision of financial and knowledge support for exporting enterprises, facilitation of foreign exchange and travel procedures for SME personnel working abroad and encouragement for financial institutions to develop import-export credit products.

Recommendation 4

- Lead agency: Ministry of Finance
- Implementation timeline: Short-term

Prioritize public procurement for SMEs. Currently, Viet Nam does not have clear regulations requiring government agencies to allocate portions of public procurement budgets specifically for SMEs, unlike models in China, Republic of Korea and Thailand. Article 14, of Viet Nam's 2017 Law on Support for SMEs states: "SMEs are given priority to participate in public procurement support programmes." However, this policy has not been effectively implemented due to the lack of specific guidelines on how to integrate it into existing bidding procedures under the Law on Bidding. Therefore, drawing on the experiences of other countries, Viet Nam should enact specific legal regulations mandating that government agencies and public organizations prioritize purchasing products and services from SMEs, particularly technological products and those involved in national construction projects. A decree should be issued to provide detailed guidance on Article 13 of the Law on Support for SMEs, establishing mechanisms to support SMEs in public procurement (technical scoring, price preference). A minimum proportion of the public procurement budget could be set aside for SMEs, for example, China requires that at least 30 per cent of the government's total procurement budget be allocated to SMEs.

4.7 Policy group on transitioning household businesses to enterprises and promoting startups

4.7.1 Context in Viet Nam

Viet Nam currently has more than 5.2 million household businesses, generating approximately nine million jobs annually.[65] The informal/private household economy, including household businesses and other individual economic entities, currently contribute around 30 per cent of annual GDP (ILO, 2024). However, few household businesses transition into formal enterprises. Statistics from 2018–22 show that only 1,875 household businesses made the transition, averaging just 375 businesses per year (ILO, 2023). There are several reasons for the low transition rate, notably compliance costs related to accounting, taxation, labour and social insurance. A 2024 ILO report showed that, on average, the effective tax contribution on each household business was VND2.7 million per year. However, if they transitioned to a company model, average compliance costs, representing full statutory obligations, would rise to VND180–200 million per year. This represents a significant burden for an individual entrepreneur or household business.

This transition will not only enable household businesses to access official support resources, such as bank credit and capacity-building or technology programmes, it will also facilitate business expansion, workforce recruitment and deeper participation in domestic and international value chains.

4.7.2 Policy recommendations based on international experiences

To encourage household businesses to formalize, two sets of measures need to be implemented simultaneously, focusing on minimizing entry barriers and providing post-conversion tangible benefits.

Recommendation 1

- Lead agencies: Ministry of Finance, Ministry of Science and Technology
- Implementation timeline: Short-term

Simplify business registration procedures. India's experience with the Udyam Registration portal offers a highly valuable lesson. It successfully created a fully online, free registration process that requires no paper documents and only uses the national ID number for automatic verification and data linkage. This model eliminated initial administrative barriers, which were the biggest concern for household businesses.

[65] Link: https://vnexpress.net/vi-sao-hon-5-2-trieu-ho-kinh-doanh-mai-khong-chiu-lon-vnepre-4867824.html

To realize these gains, Viet Nam must upgrade its current "National Business Registration Portal." Specifically, a single, user-friendly platform could be designed exclusively for the conversion of household businesses into enterprises. The platform should be deeply integrated with the National Population Database to minimize repeated data entries and eliminate the need to submit personal legal documents. The "three no's" principle should be applied: (i) no paper forms (all submissions online), (ii) no fees or charges (full exemption of registration and publication fees) and (iii) no in-person visits (entire process from submission to receiving results is conducted online).

Recommendation 2

- Lead agency: Ministry of Finance
- Implementation timeline: Short-term

Provide targeted support for businesses newly converted from household enterprises. A key policy priority should be to assist household businesses after formal conversion into enterprises. Support measures should focus on tax incentives, credit access, legal and accounting services, and capacity-building through training programmes.

Tax incentives: Consider corporate income tax exemptions for the first three years and a 50 per cent reduction during the following three years for micro-enterprises converted from household businesses. Incentives should only apply to enterprises with revenue below a certain threshold (VND3 billion per year, for example) or those employing workers contributing to social insurance, ensuring support reaches intended beneficiaries and encourages formal job creation. Crucially, the process to claim tax incentives should be integrated into the conversion registration process and implemented automatically by tax authorities, without requiring businesses to submit additional complex documentation.

Credit incentives: Preferential credit packages should be specifically designed with simplified procedures. A mechanism is required to automatically place newly converted enterprises on the priority list of the SME Credit Guarantee Fund and other credit programmes. This ensures loan applications are processed faster with more flexible assessment criteria, focused on business plans and cash flow rather than solely on collateral, thereby effectively addressing capital access constraints.

Support for legal, accounting and capacity-building services: The government should issue "vouchers" to newly converted enterprises, not provide these services directly. Businesses can use these vouchers to pay fully or partially for services from law and accounting firms or training providers pre-approved and listed by the government. This approach fosters competition among service providers, promoting higher quality support.

4.8 Policy group on promoting inclusive business and empowering women and vulnerable groups

4.8.1 Context in Viet Nam

Despite Viet Nam making significant progress in social equality, women-owned enterprises still face a range of specific barriers. Despite improvements during 2011–18, the share of women-owned businesses in Viet Nam declined during 2019 and 2020, falling short of targets set in the National Strategy on Gender Equality.[66] In terms of size, these enterprises are predominantly concentrated in the micro and small segments and, on average, remain smaller than male-owned businesses. Similarly, entrepreneurs from vulnerable groups, such as persons with disabilities and ethnic communities, encounter double barriers from limited access to resources and prevailing social biases, which hinder their ability to participate fully and equally in economic activities. To unlock the full potential of the private sector, targeted support policies are needed to foster a truly inclusive business environment that leaves no one behind.

4.8.2 Policy recommendations based on international experiences

Recommendation 1

- Lead agency: Ministry of Finance
- Implementation timeline: Short-term

Mainstream gender and inclusive business into the policy framework. The process of policy formulation and implementation should meaningfully integrate gender and inclusiveness through impact assessments, with particular attention to vulnerable groups such as small and informal enterprises, where women account for the majority. In response, the government is encouraged to incorporate the promotion of women-owned and vulnerable group-owned enterprises, or those employing a significant share of women or other disadvantaged groups, into its Resolutions on improving the business environment. This would contribute to achieving the Sustainable Development Goals and fostering inclusive business practices.

Recommendation 2

- Lead agencies: State Bank of Viet Nam (lead), in coordination with the Ministry of Finance and the Viet Nam Bank for Social Policies
- Implementation timeline: Short-term

Integrate inclusive business criteria into financial support mechanisms. Viet Nam should introduce specific incentives to encourage financial institutions to support enterprises owned by women or vulnerable groups. Drawing on India's experience, where the CGTMSE Credit Guarantee Fund applies higher guarantee coverage for women-owned enterprises as well as those owned by persons with disabilities and other disadvantaged groups, the proposed National Credit Guarantee Fund (as outlined in Section 4.2) should apply higher guarantee levels (90–95 per cent) for loans to such enterprises. At the same time, the Viet Nam Bank for Social Policies as well as the commercial banking system could design credit packages with specific disbursement targets for these two groups, similar to India's MUDRA programme, which has been highly successful with women comprising 68 per cent of borrowers.

Recommendation 3

- Lead agency: Ministry of Finance
- Implementation timeline: Short-term

Apply preferential policies for inclusive enterprises in public procurement. Viet Nam should leverage public procurement as a tool to create markets and opportunities for women-owned businesses and social impact enterprises. Drawing on Republic of Korea's experience, Viet Nam should establish a preferential scoring mechanism for bidders that are SMEs owned by women or those employing a significant proportion of persons with disabilities or from ethnic communities, when participating in tender evaluations

[66] The National Strategy on Gender Equality (NSGE) for 2011–2020 set a target for women-owned businesses to account for 35 per cent of all enterprises by 2020. However, this target was not achieved. According to the report "Business Environment in Viet Nam: Perspectives from Women-Owned Enterprises" by VCCI and Aus4Reform, the proportion of women-owned enterprises was 23.8 per cent in 2018, 22.7 per cent in 2019, and 23.4 per cent in 2020. Link: https://vibonline.com.vn/wp-content/uploads/2021/05/21.04.29-Aus4R-VCCI-Comp4_Bao-cao-MTKD_DN-nu-2020_FINAL-TOM-TAT.pdf

References

ADB (Asian Development Bank). 2023. *Asia Small and Medium-Sized Enterprise Monitor 2023: How Small Firms Can Contribute to Resilient Growth in the Pacific Post COVID-19 Pandemic*. Doi: http://dx.doi.org/10.22617/SGP230413-2

Aridi, Anwar; Kim, Wonjoon; Kim, Ki Bum; Shin, Kyeyoung; Kim, Taekyun; Kim, Daehyun. 2024. *The Effects of Matching Grants on Technology Startups: The Case of Korea's TIPS (English). World Bank Group.* Washington DC. http://documents.worldbank.org/curated/en/099522101172436756

Adhikari, Samik; Thelma Seoeun Choi; Yi, Soonhwa. 2022. *Learning from Korea's Labor and Migration Systems: Knowledge Exchange with the Government of Nigeria.* Washington, D.C. World Bank Group. http://documents.worldbank.org/curated/en/099821106212239179

Asian Productivity Organization. 2024. The Art of Digitalization: A Dive into e-Estonia.

Central Executive Committee. 2025. Resolution No. 68-NQ/TW (5 May 2025) of the Politburo on development of the private economy.

Guo, Di & Guo, Yan & Jiang, Kun. 2016. "Government-subsidized R&D and firm innovation: Evidence from China." Research Policy, Elsevier, vol. 45(6), pages 1129-1144. Doi: 10.1016/j.respol.2016.03.002

Hermann Simon. 2009. "Hidden Champions: Audit and Strategy Development." *Springer Books in: Hidden Champions of the Twenty-First Century*, chapter 11, pages 315-349, Springer. Doi: 10.1007/978-0-387-98147-5_11

ILO. 2023. *Legal Status of Household Businesses: Current Status and Solutions*. Hanoi. https://byvn.net/MabQ

––– 2024. *Defining the Legal Status of Household Businesses in Viet Nam: A Key to Formalization*. Hanoi. https://byvn.net/T3FC

––– 2025. *Promoting Public Procurement for Micro, Small and Medium-sized Enterprises' Growth and Transition to Formality: Lessons Learned from Chile and the Republic of Korea*. Doi: https://doi.org/10.54394/ZMEU9455

Infocomm Media Development Authority. 2025. "Architecting Singapore's Digital Future." https://byvn.net/Ty7N

KODIT (Korea Technology Credit Guarantee Fund).2022. "KODIT Insight." Seoul. https://www.kodit.co.kr/koditEng/cm/cntnts/cntntsView.do?mi=2779&cntntsId=11507

MPI (Ministry of Planning and Investment). 2024. *Viet Nam Enterprise White Book 2024*. Hanoi.

––– 2024. *Report on the implementation of the Law on Support for Small and Medium Enterprises in 2024*. Hanoi.

NSO (National Statistics Office). 2025. *Report on Business Trends in the Manufacturing, Processing, and Construction Industries for Q2 and Forecast for Q3 2025*.

OECD (Organisation for Economic Co-operation and Development). 2023. *OECD Reviews of Innovation Policy: Korea 2023, OECD Reviews of Innovation Policy*. OECD Publishing, Paris. https://doi.org/10.1787/bdcf9685-en

Pham Manh Hung & To The Nguyen. 2025. "Singapore – a leading global R&D hub." *Viet Nam Economic Journal*. https://byvn.net/sgKK

Taehee Yoon. 2024. "Communist Party of China and the Chinese Communist Party's Policy on the Private Sector: Coexistence of Fostering and Guidance". *Journal of Asia-Pacific Studies*. http://dx.doi.org/10.18107/japs.2024.31.4.001

VCCI (Viet Nam Chamber of Commerce and Industry). 2025. *Viet Nam Provincial Competitiveness Index 2024*. Hanoi. https://pcivietnam.vn/an-pham/bao-cao-pci

Wei, Wenting; Sanchez Ortega, Luis Aldo. 2022. *Business Registration Reforms in China: A Case Study. Equitable Growth, Finance & Institutions Insight*. World Bank. Washington, D.C. https://doi.org/10.1596/37504

World Bank. 2024. *The Effects of Matching Grants on Technology Startups: The Case of Korea's TIPS*. Washington, D.C. http://documents.worldbank.org/curated/en/099522101172436756

––– 2024. *Viet Nam 2045: Trading up in a Changing World – Pathways to a High-Income Future*. Washington, D.C. http://documents.worldbank.org/curated/en/099111424204523679

World Intellectual Property Organization. 2024. *Global Innovation Index 2024: Unlocking the Promise of Social Entrepreneurship*. https://doi.org/10.34667/tind.50062

Yu, S., Ma, Z., Zhang, X., & Liu, X. 2023. "*Does the Belt and Road Initiative Facilitate China's Corporate Overseas Investment: Based on a Sustainable Development Perspective*". Economic Research-Ekonomska Istraživanja, 36(3). https://doi.org/10.1080/1331677x.2022.2157855

Productivity Ecosystems for Decent Work Programme
E: productivity@ilo.org

ILO Country Office for Viet Nam
Green One UN House
304 Kim Ma Street, Ba Dinh, Ha Noi

ILO ENTERPRISES Department
International Labour Office
Route des Morillons 4
CH-1211 Geneva 22, Switzerland