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Small Enterprise Employment*

Creating a Conducive Policy Environment for Employment Creation in Small Enterprises in Viet Nam

by

Pham Thi Thu Hang

InFocus Programme on Boosting Employment
through **Small Enterprise Development**
Job Creation and Enterprise Department



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Foreword

Policies, institutions and regulations that provide a conducive environment for small enterprises can make a substantial contribution to employment creation. This report is the outcome of a research project undertaken jointly by the International Labour Organization (ILO) and the Viet Nam Chamber of Commerce and Industry (VCCI), to analyse how the regulatory environment affects the growth of micro and small enterprises (MSEs) and, in turn, the generation of MSE employment in the economy.

The assessment of the policy environment for MSEs in Viet Nam is based on a careful mapping of existing laws and regulations. Important reform efforts have made it easier for MSEs to register and to comply with government regulations. The enactment of a new Enterprise Law (2000) has led to a rapid increase in enterprise registrations, with positive consequences for both employment creation and job quality in MSEs. Challenges remain in the further implementation of laws and regulations at national and local levels, as well as in stimulating an appropriate environment for the provision of business development services and small enterprise associations.

The ILO's InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) initiated an international research project on the policy environment for small enterprises and its impact on the volume and quality of employment created by these enterprises. Seven countries participated in this research effort: Chile, Guinea, Pakistan, Peru, South Africa, Tanzania and Viet Nam. This Working Paper is one in a series of country studies and surveys on "Conducive policy environment for small enterprise employment" published by IFP/SEED. The research has been funded through the Dutch Partnership Programme with the ILO, and the ILO and the VCCI would like to thank the Dutch Government for its on-going support for small enterprise development in Viet Nam.

The research activities are leading to new policy training materials and policy guidelines. Through action programmes at country and regional levels, SEED works with national stakeholders to assess the policy environment and to strengthen national and local capacities to design, implement and evaluate policy reform. SEED also maintains a database on national policies, laws and regulations pertaining to small enterprise development, which can be consulted on-line on SEED's website (<http://www.ilo.org/seed>).

This report has been written by Dr. Pham Phi Thu Hang, Director of Small and Medium Enterprises Promotion Center of the Viet Nam Chamber of Commerce and Industry, together with a team of VCCI staff members. The research was supported and coordinated by IFP/SEED, in close cooperation with the ILO office in Hanoi and the East Asia Multidisciplinary Advisory Team in Bangkok. Geraldeen Fitzgerald edited the document.

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This report would not have been possible in its present form without the invaluable cooperation of Mr. Vu Tien Loc, Vice President of VCCI and Mr. Vu Quoc Tuan, Senior Adviser of the Prime Minister's Research Board, who commented and advised the author from the initial brainstorming stage through to the conclusions and recommendations. The author expresses sincere appreciation for the in-depth comments on various drafts of the report to Dr. Nguyen Dinh Cung, Central Institute of Economic Management; Mr. Nguyen Van Trong, the Viet Nam Cooperatives Alliance; Dr. Pham Duy Nghia, the Hanoi University of Law; Mrs. To Anh Duong, the Viet Nam State Bank; Mrs. Nguyen Phuong Hoa, the Viet Nam Women Union; Dr. Nguyen Huu Dung and Mrs. Tong Thi Minh, the Ministry of Labour and Social Affairs (MOLISA); Mr. To Dinh Thai, Ministry of Planning and Investment; Mr. Nguyen Dinh Thu, Ministry of Science, Technology and Environment; Mr. Chu Viet Cuong (MBA), the Institute of South East Asia Studies and Mr. Rob Swinkel, World Bank expert.

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The author is responsible for any inaccuracies.

¹ Annex 5 provides a list of individuals consulted in the course of this report.

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Acronyms and Abbreviations

AFTA	ASEAN Free Trade Area
ASEAN	Association of South-East Asian Nations
BDS	Business Development Services
CGF	Credit Guarantee Fund
CIEM	Central Institute for Economic Management
DOLISA	Department of Labour, Invalid and Social Affairs
EDI	Encouraging Domestic Investment
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSO	General Statistical Office
HE	Household enterprise
HEPAP	Hunger Eradication and Poverty Alleviation Program
ICB	Industrial Commercial Bank
ILO	International Labour Organization
JCF	Job Creation Fund
MARD	Ministry of Agriculture and Rural Development
MOF	Ministry of Finance
MOI	Ministry of Industry
MOLISA	Ministry of Labour, Invalid and Social Affairs
MOSTE	Ministry of Science, Technology and Environment
MOT	Ministry of Trade
MPDF	Mekong Project Development Facility
MPI	Ministry of Planning and Investment
MSE	Micro and small enterprise
NJCP	National Job Creation Programme
NGO	Non-Governmental Organization
OJT	On-the-job Training
SBV	State Bank of Viet Nam
DAF	Development Assistance Fund
SME	Small and medium enterprise
SOE	State-owned enterprise
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
US\$	US dollar
VAT	Value Added Tax
VCA	Viet Nam Cooperatives Alliance
VCCI	Viet Nam Chamber of Commerce and Industry
VGCL	Viet Nam General Confederation of Labour
VNLSS	Viet Nam Living Standards Surveys
VND	Viet Nam Dong
VWU	Viet Nam Women's Union
WB	World Bank
WTO	World Trade Organization

Executive Summary

Boosting employment is one of two main targets of social economic development, according to the Ninth Congress of Viet Nam Communist Party held in April 2001. The small-enterprise sector emerged in the past decade, after the introduction of the *Doi Moi* (Renovation) policy and the promulgation of regulations encouraging the development of the private sector – of which the overwhelming majority is small enterprises – either in the form of self-employment or individual enterprises, household enterprises (HEs), or small and medium enterprises (SMEs). Since the implementation of *Doi Moi*, Viet Nam has become one of the world's fastest growing economies – achieving an impressive 7.6 per cent average annual growth rate over the past decade.

This report evaluates the importance of small enterprises in their role as providers of employment in both qualitative and quantitative terms. It assesses the policy and legal environment for small enterprises in seven key areas: specific MSE policies; business laws and regulations; taxation; labour policy; trade; finance, credit and bankruptcy policies; and infrastructure and innovation policies. This includes a mapping of key documents and institutions that influence the environment in which small enterprises operate in Viet Nam. The response of Vietnamese entrepreneurs to this environment and the effect it has on their decisions as MSE owner/managers were analysed from the results of a survey conducted for this purpose.

Employment in Viet Nam should be seen from the perspective of the predominantly family-oriented nature of the economy. Its labour force is still living primarily in rural areas. Open unemployment is a new feature of the Vietnamese economy and is on the increase in both urban and rural areas. In the meantime, more than 1.4 million new jobs need to be created each year to keep pace with the demand for employment.

In the context of entrepreneurship, it is a traditional belief held by most businesspeople in Viet Nam that success is achieved from the right external conditions, rather than from their own initiatives. Due to the lack of systematic data on Vietnamese enterprises classified by size, the analysis of the small-enterprise sector has entailed an analysis of the whole private sector, which includes both formal private enterprises and semi-informal HEs. If the SME sector is defined as enterprises with less than 300 employees, it comprises the majority of Vietnamese HEs, SMEs and private companies. Among these, micro-enterprises and HEs (defined as from 1-9 workers) have the largest share of total employment in the non-agricultural sector of Viet Nam. They also have a much lower cost per job than can be found in larger enterprises. This report focuses on enterprises with 1-9 workers and, for reasons of data availability and lack of an overall definition of the small enterprise in the literature, also presents data on enterprises with from 1-49 employees.

While the greatest part of non-agricultural labour force is working in small enterprises, the quality of employment in this sector is often inadequate. Labour policies address work safety, occupational health and gender issues, but do not reach employees in HEs.

The Government's understanding of the role that small enterprises can play was expressed positively in a policy supporting SME development (Decree No. 90/2001/ND-CP dated 23 November 2001) but, to nurture growth of this sector, a government body needs to be specifically established. However, time is required to evaluate this policy, and implementation calls for

concrete measures and effective support schemes. To avoid any over-dependency on such support, the Government must encourage a self-reliant spirit in the SMEs.

Small enterprises predominantly sell their products on the domestic market, where competition has become fierce. Poor product quality and the high cost of production are the main reasons for the low competitiveness of Vietnamese enterprises. At the same time, the domestic market is overwhelmed with smuggled products, making it difficult to develop a national market for Vietnamese products. The issue of market access should be given prominence.

A lack of access to capital is one of the biggest constraints to small enterprises in Viet Nam: a combination of limits in the regulations on credit guarantees and the poor knowledge and experience of bank officers. Good practice has shown the need for establishing a credit guarantee fund (CGF) to assist small enterprises to obtain credit from official sources. Credit guarantees by reputation of NGOs or associations representing the interests of small enterprises (trust credits) are another method of access; government measures should be introduced to encourage enterprise owners/managers in the use of this credit option.

The policy on starting a business, introduced with the Enterprise Law, is a step in the right direction for the development of small enterprises. However, the policies and laws on establishing a business should not stop at business registration. Attention must be given to business management issues as well as ways to improve the competitiveness of small enterprises and their access to markets. To this end, support programmes for starting and improving small enterprises are vital. If this objective is achieved, this report forecasts an annual average of more than 15,000 newly established enterprises, and 400,000 jobs created. Among 2.1 million HEs, a large number of enterprises could become fully formal.

Taxation incentives serve as main instrument for the implementation of all national programmes and promotional policies. These direct incentives are necessary, but various types of “priority” and “financial incentives” should be reduced in order to obviate numerous overlapping preferential treatments, which benefit large State-owned enterprises and create unfavourable conditions for enterprises.

In tandem with the lack of finance are the problems of poor management and a lack of technology. This report recommends that the Government emphasize the significance of small enterprises by acting now to develop the market for business development services (BDS). Likewise, it is necessary to speed up the establishment and development of business associations and entrepreneurs’ clubs in rural areas; these regions have the most pressing labour needs. It also requires the dissemination of good practices in enterprise development to encourage rural entrepreneurs, particularly women, to overcome obstacles and activate their business capability and potential to the full.

Policies that support the development of small enterprises are closely related to various regulations and administrative procedures. The functions of each governmental department and organization should be clearly identifiable and allocated.

If the significance of the small-enterprise sector is to grow and its small enterprises prosper, it is necessary to repeat that protective or nurturing measures initiated by the Government to favour small enterprises should not deter SME owners and managers from becoming self-reliant, competitive in the changing global arena and, ultimately, long-term sustainable in Viet Nam.

1. Introduction

Among the main reasons for the growth of employment in small enterprises in developing countries has been the inability of large-scale enterprises to absorb the increasing urban population, due to rural migration and demographic changes. There has also been a lessening of the economic role of mass production and a greater emphasis on flexibility and specialization. Small enterprises, once viewed as essentially peripheral economic actors compared to large enterprises – the “real” engines of growth – are more likely to be seen as playing a fundamental role in the “entrepreneurship economy”.

Despite the large number of small enterprises in View Nam, the current business climate and the lack of adequate policy and legal environment has constrained and distorted their contribution to employment.

1.1 Objectives

The study objectives are:

- to evaluate the important role of small enterprises in employment and the economy;
- to map and assess the policy environment facing small enterprises;
- to describe the entrepreneurs’ responses to the policy and legal environment; and
- to investigate the link between employment in small enterprises and the policy and legal environment, and its influence on the decisions of small enterprise owners or managers.

This study has been designed to provide answers to the following questions:

A. To what extent is the identified pattern of employment in small enterprises desirable in terms of socio-economic development?

This question focuses on the contribution small enterprises make, in terms of both the quantity and quality of employment.

B. To generate employment creation within small enterprises, what main elements are required for a well-designed policy and legal environment?

This question focuses on the nature of the linkages between the policy and legal environment and the quantity and quality of employment observed in small enterprises.

C. What is needed to achieve an effective implementation of the policies and laws for small enterprises?

This analysis assesses the impact of policy implementation and the legal framework on small enterprise development. It provides examples of good practice currently being implemented in some locations in Viet Nam and reviews the lessons learned from these experiences so far.

1.2 Methodology

To look into these questions and to answer them comprehensively, this report presents the analysis of three surveys conducted in the small enterprise sector in Viet Nam. These included: a Survey on the Implementation of the Enterprise Law and Impediments for the Development of Enterprises in the Non-State Sector; a Survey on Entrepreneurship in Viet Nam; and a Survey on Micro and Small Enterprises (see Annex 1 for full details of scope). Outlined below are the methods this report adopted and an outline of the surveys used to ascertain the impact of policy on small enterprise employment.

Collation and synthesis of current research and literature of all information on the individual, household and small business sector. This includes research reports and studies, policy and programme documents, and census and other published statistical information.

A survey of the household, individual and small business sector was conducted to fill some of the major gaps identified in the collation and synthesis described above. The survey carried out face-to-face interviews with entrepreneurs in 312 enterprises employing from 1 to 49 workers. It was limited to enterprises in the four northern provinces of Hanoi, Ha Tay, Hai Phong, and Hai Duong, the central city of Da Nang and Quang Nam, and the two southern provinces of Ho Chi Minh City and Vinh Long.²

Interviews with 39 key stakeholders were conducted to help in assessing the policy on business law, taxation, labour, trade, and small enterprise development. Interviewees comprised the representatives of 19 government agencies; ten non-governmental organizations; five from the private sector; and five from workers' organizations.

Reference Committee and consultative meetings. The methodology and general framework of the study were overseen by a Reference Committee, whose members included researchers and consultants from government agencies, non-governmental organizations, research institutes and private enterprises. The primary assessment of policy and laws and other issues raised during the writing of this report were discussed in four consultative workshops, which were organized in the northern, southern and central regions of Viet Nam. The report thus includes the opinions, ideas and contributions of local policy makers, local authorities and small-enterprise promoters.

1.3 Business classification and scope of the study

The Constitution of the Socialist Republic of Viet Nam acknowledges the long-term existence and equality of all economic sectors: State sector, cooperative sector, State capitalist sector, private sector and the small-enterprise sector. Table 1.1 shows the classification of the main types of enterprises in Viet Nam. Their ownership characteristics are the basis for laws on the establishment and operation of various enterprises, such as the State Enterprise Law, the Cooperative Law, the Enterprise Law, or the Law on Foreign Investment.

² VCCI (2001b) presents the main findings of this survey. An electronic copy of this unpublished background paper is available on the IFP/SEED website: www.ilo.org/seed.

In many studies, the concept of “small enterprise” is frequently mentioned, but it is often unclear how small enterprises are defined and on what classification criteria. Each study defines its own specific target groups. The lack of a uniform definition of micro and small enterprises creates a confused image of the sector. In the literature, data are most often based on the small-enterprise legal structure: whether state-owned enterprises, cooperatives, sole proprietorship, partnerships, shareholding companies, limited liability companies or household enterprise (HE). Few research studies have classified enterprises by their size.

In this report, small and medium enterprises are defined as enterprises with less than 300 workers. However, the focus is on *micro* and *small* enterprises (MSEs) with the assumption that this group of enterprises is an important source of employment for the non-agricultural sector. In this regard, the target group of this report is defined as:

- registered domestic non-agricultural enterprises – less than 50 employees;
- small enterprises – from 10-49 workers; and
- micro enterprises – from 1-9 workers.

Based on the different types of enterprises in the transformed economy of Viet Nam and the results of other previous surveys, this research focuses on private MSEs and presumes that changes and improvements in the policy and legal environment will have a decisive impact on the whole sector in which MSEs operate. Although problems of data availability have made it difficult to assess with certainty the employment conditions in Viet Nam, this report provides a broad overview of the employment conditions in MSEs and the contribution of this sector to employment creation and generation.

Table 1: Classification of types of enterprise, Viet Nam, 2001

	1	2	3	4	5	6	7	8	9
Types of enterprise	State-owned enterprises:* - Central - Local	Cooperative enterprises	Enterprises operating with foreign investment	Joint stock company	Limited liability company: - with one member - with more than two members	Partnership company	Private company	Household enterprises	Street vendors
Laws governing	Law on State-owned enterprises	Law on Cooperatives	Law on Foreign Investment	Enterprise Law					n.a
Ownership	State economy	Collective economy	Private or State capitalist economy	Private-sector economy					
Economic sectors	State sector	Non-State sector							
Legal status	Formal							Semi-informal	Informal

Note: * The General Statistical Office (GSO) also defines “mixed enterprise” as a type of enterprise whose capital is contributed by different ownerships, e.g. from Columns (3) or (4). However, the enterprises of column (3) often belong to the sector with foreign investment (either 100 per cent FDI or less). In addition, there are also State-owned Enterprises (SOEs) of socio-political organizations, but they are few and now being transformed into limited liability companies with one member.

2. Macro-economic overview

2.1 Historical background

Since 1954 in the North of Viet Nam and 1975 in the South, a centrally-planned socialist economy model was established, similar to some Eastern European and former Soviet Union countries. The Government nationalized lands, plant and mining industries, so that by the late 1970s the two main types of ownership were State-owned or collective. Accordingly, the two main forms of enterprise were State-owned enterprises (SOE) or cooperatives. Private enterprises were allowed to operate but were limited in their size and developed at a modest speed. Box 1 gives a capsule view of current economic factors at time of writing.

Box 1: Viet Nam: Economic factors

Population (2001)	78.68 million
Urban	24.7 per cent
Rural	75.3 per cent
Annual population growth rate (2001)	1.35 per cent
Land area (square kilometres)	32,924.1
GDP per capita (2000)	US\$ 400
Annual average GDP growth rate (2000-2001)	6.8 per cent
Currency	Viet Nam Dong (VND)
Exchange rate (December 31, 2001)	US\$ 1 = VND 15,070
Administrative units (see also Annex 2, Institutional mapping)	61 provinces
Capital	Hanoi

The business environment of the MSE sector has significantly changed since the introduction of the *Doi Moi* (Renovation Policy) in the late 1980s. The transition from a centrally-planned economy with a high amount of subsidization and government “red tape orders” into a socialist-oriented market economy is the key point of this economic renewal policy. This policy has created a legal, political and economic framework for the development of a mixed economy in Viet Nam, including the State-owned, collective and private sectors, as well as individual and household businesses. Box 2 summarizes the key changes evolving in economic policy from 1986 to 2001.

Dramatic changes were introduced in March 1989, when households, rather than cooperatives, became the basic economic units in agriculture. Most subsidies to State-owned enterprises were abolished and they were free to set their own prices on output. The banking system was reformed and the State Bank of Viet Nam was established as the central bank. The budget deficit was brought under control; restraints on internal and international trade were lifted; and the Viet Nam Dong was devalued sharply, bringing it closer to its market rate.

The results of these changes were spectacular. Agricultural output rose by 7.5 per cent in 1989, and the country suddenly switched from being a major importer of rice to the world's

third largest rice exporter. The annual average rate of inflation fell from 308 per cent in 1988, to 35 per cent in 1989. GDP rose by 8 per cent – the best performance for a decade. The boom in agriculture and services easily offset the industrial stagnation resulting from the ending of State subsidies. The timing was fortunate too: the rise in revenue from oil exports almost exactly offset the decline in aid from the former Soviet Union and provided an important source of budgetary revenue during the transition years.

Thus, a market economy emerged. In parallel with the policies on economy renovation, the Government has committed itself to establishing a legislative State to promulgate laws and other necessary normative and legal acts and documents to facilitate the reform of economic policies. The 1992 Constitution recognized the legality and interest of all economic sectors. Nevertheless, it still maintains the leading role in the State-owned sector. Important gaps were filled in the legal framework by the approval of the Land Law, the Law on Bankruptcy, the Labour Code, the Law on Foreign Investment, the Law on Encouraging Domestic Investment, and the creation of a modern tax structure. In the last years of the second millennium, Viet Nam has introduced a range of laws concerned with enterprise development, creating a more favourable environment to increase their potential with the Enterprise Law, the Law on Cooperatives, and the Law on State-owned Enterprises.

The development of the non-State sector has experienced ups and downs. Even though many State-owned enterprises are small and medium, the development of these SMEs was very limited in terms of both quality and quantity of employment. In this context, if the competitiveness of the micro, small and medium enterprises cannot be improved, they will not be able to compete in the international market, nor in the local ones. Thus, the socio-economic objectives of job creation and raising the standard of living will not be easily achieved under present-day conditions in Viet Nam.

Box 2: Key changes in economic policy

- 1986:** At its Sixth Party Congress the ruling Communist Party commits itself to economic renovation, or *Doi Moi*.
- 1987:** The law on Foreign Investment is passed, paving the way for large inflows over the following decade.
- 1988:** Decree No. 10 establishes the household, not the cooperative, as the basic production unit in agriculture.
- 1989:** An extensive reform package is introduced, abolishing most subsidies and price controls, lifting most trade restrictions and restructuring the banking sector.
- 1990:** Excise, turnover and business profit taxes are introduced, followed by personal income tax in 1991. A value-added tax replaces the turnover tax in January 1999.
- 1991:** Private Enterprise and Company Laws are introduced, recognising the formal private sector in Viet Nam.
- 1992:** The new constitution allows a “multi-sector economy in accordance with the market, based on State management and socialist orientations”.
- 1993:** New Land Law allows agricultural land use rights to be transferred and useable as collateral.
- 1994:** Law on Encouraging Domestic Investment creates investment incentives for domestic enterprises.
- 1995:** Viet Nam becomes a member of the ASEAN Free Trade Area.
- 1998:** Measures designed to speed up the equitization of State-owned enterprises (SOEs).
- January 2000:** The enforcement of a new Enterprise Law positively affects business development by mobilizing the internal resources of the Vietnamese population.
- July 2000:** Viet Nam and the United States sign a bilateral trade agreement. The Agreement has been officially enforced since 10 December 2001.
- April 2001:** The Ninth Party Congress continues to follow a strategy of social and economic development with its Programme of Industrialization and Modernization. Its two main targets are: double GDP and reduce unemployment in rural areas to 50 per cent by 2010.

2.2 Structure and performance of the economy

2.2.1 Economic structure and development by sector

Since the implementation of the *Doi Moi* (Renovation Policy), Viet Nam has been one of the fastest growing economies in the world. As Table 2.1 shows, the average annual growth rate in the past decade was at an impressive 7.6 per cent, despite the slowdown since 1998. Inflation has been low and stable since 1992. Between 1990 and 2000, Viet Nam's GDP has doubled. In line with the course of the Programme of Industrialization and Modernization, the sectoral structure has been changed since 1990, with the share of industry in GDP increasing from 25 per cent to around 35 per cent, as shown in Table 2.2. The share in GDP of agriculture fell from 31.8 per cent to 23.2 per cent. The share of services also rose until 1995 but changed little thereafter.

Table 2.1: GDP growth by economic activity* 1995-2001 (%)

	1995	1996	1997	1998	1999	2000	2001
Growth rate of GDP (%)	9.5	9.3	8.1	5.8	4.8	6.7	6.8
Agriculture	4.8	4.4	4.3	3.5	5.2	4.0	2.7
Industry	13.6	14.5	12.6	8.3	7.7	10.1	10.4
Service	9.9	8.8	7.1	5.1	2.2	5.5	6.1

Note: * GDP based on 1994 prices.

Source: General Statistical Office (GSO), 2001.

Table 2.2: Share of GDP by economic activity* 1995-2000 (%)

	1995	1996	1997	1998	1999	2000
Total	100.00	100.00	100.00	100.00	100.00	100.00
Agriculture, forestry and fisheries	26.24	25.06	24.17	23.64	23.68	23.16
Industry and construction	29.94	31.34	32.64	33.50	34.47	35.42
Service	43.82	43.60	43.20	42.86	41.85	41.42

Note: * GDP based on 1994 prices.

Source: GSO, 2001.

The share of investment in GDP rose rapidly from 11 per cent in 1990 to 30.9 per cent in 1997; it has since remained at around 20-27 per cent. Increased government savings, more foreign loans, foreign aid and direct investment, and a compression of domestic consumption have financed the rise in investment. Private and official transfers are significant and are the main source of financing. New aid pledges total more than US\$2 billion. Since 1997 the inflow has risen to over US\$1 billion annually and continues to rise.

The largest single donor is Japan, which has pledged one-third of all the aid committed to the country since 1992. The Japanese Myazawa Fund placed a special target of boosting the private sector. Other important sources are Foreign Direct Investment commitments; the total commitments for the period 1988 to 2000 are US\$ billion 36.6 and for 2001 US\$ million 2,192.

Readers are referred to Annex 3, a statistical overview of Viet Nam investment, main exports and imports, trading partners, labour force and employment shares by sector.

Agriculture and fishing

Viet Nam remains a predominantly agricultural society. The sector still contributes about one-quarter of non-oil exports and the agricultural output grew at a robust 4.2 per cent annually between 1991 and 2000. Fishery output rose by 9.6 per cent annually in 1991 and 2000, with particularly rapid gains in the output of freshwater aquaculture. Fishery exports have increased rapidly, from US\$ 239 million in 1990 to US\$ 1,475 million in 2000; making them the country's third most valuable export (behind crude oil and garments and ahead of rice and coffee).

Industry and construction

The industrial value-added increased rapidly at an average rate of 11.3 per cent per year, albeit from a very low base. As a result, the industrial share of GDP has been increasing and has been the main driving force for the economy's recent rapid growth. The Government intends the sector retain this vanguard role: official plans to 2010 envisage an industrial growth of 10 per cent per year.

Almost two-fifths of industrial output comes from two main sectors, food and foodstuffs (26 per cent) and petroleum and other fuels (12 per cent). New sub-sectors, such as electronics and car and motorcycle assembly, have been emerging, largely as a result of foreign direct investment (FDI), but are still small. FDI has also been making a contribution to import-substituting industries, ranging from heavy industries, such as steel and cement, to consumer goods, such as beer and cigarettes. Thus, this investment structure has driven resources into activities that are capital-intensive and do not create much employment. A relatively small and slow-growing domestic market means that the limits to import substitution are reached quickly. This helps to explain why the bulk of FDI in 1999 and early 2000 flowed into export-oriented plants in the industrial and export-processing zones (EPZs).

The state-owned sector generates 49.6 per cent of industrial output, but its share has fallen over the past few years. Its growth has lagged behind that of FDI-funded and local non-State firms. The non-State manufacturing sector, despite its smaller contribution to GDP (21.9 per cent), employs four times more than the State sector.

The fastest growth is in FDI-funded industrial enterprises, whose output rose by 24.4 per cent in 1998, three times as fast as state-owned or private industrial firms. In 2000, their growth rate started to slow down, almost at the same level as that of private industrial firms but, as Table 2.3 shows, still contributes 35.4 per cent of all industrial output.

Table 2.3: Industrial gross output by form of ownership* Viet Nam, 1996-2001 (%)

	1996	1997	1998	1999	2000	2001
Total value (VND billion)	149,432.5	180,428.9	208,676.8	245,828.0	n.a	n.a
Structure (%)						
Total	100.0	100.0	100.0	100.0	100.0	100.0
State sector	49.6	47.3	45.4	39.5	41.6	41.0
Domestic non-State sector	23.9	23.7	21.4	21.9	22.4	23.6
FDI-funded enterprises	26.5	29.0	33.2	38.6	36.0	35.4

*Note: * GDP based on current prices except for 2000 and 2001 (for 2000 and 2001 GDP is based on 1994 prices). Source: GSO, 2001.*

Services

The services sector has expanded at a little more than 7.2 per cent each year and comprised 41.4 per cent of Viet Nam's domestic production in 2000. In recent years, the fastest growing services sub-sectors have been banking, finance and insurance, which started from a low base and, in 1997, accounted for a little over 5 per cent of the sector's total output. In contrast to more mature market economies where business services are at least 10 per cent of domestic output (e.g. Singapore, 1986), Viet Nam's business services are probably less than 1.0 per cent of total domestic output. Financial and business services have shown tremendous growth since 1990 – almost double that of manufacturing.

Domestic tourism is accelerating, reaching 10 million in 1998, as travel within the country becomes easier and incomes rise. The number of Vietnamese travelling abroad has also increased significantly, from 15,000 in 1996 to 59,000 in 1998. The number of foreign visitors entering Viet Nam rose to 2.3 million in 2001.

2.2.2 Foreign trade

Before the reforms of 1988-89, export earnings covered only 30-50 per cent of imports. The US-led embargos on trade and finance restricted the opportunities for trade outside the Council for Mutual Economic Assistance (CMEA) axes, while stagnation in the CMEA countries limited growth in that market. Measures have been taken since 1989 to decentralize foreign trade. These reforms led to a surge of exports. During 1992-2000 the US dollar value of exports grew at an annual average rate of 24 per cent. The emergence of Viet Nam as a major rice and coffee exporter has helped boost earnings, alongside rising oil exports and growing access to new markets for its textiles, garments, footwear and coffee, as well as for traditional commodities such as rubber and seafood.

During the 1990s, Viet Nam's main trading partners were its fast-growing neighbours – Japan, Singapore, South Korea, Taiwan and Hong Kong. In 1997, 70 per cent of trade was with these countries, but this fell to just 50 per cent in 1998 when demand collapsed as a result of the Asian financial crisis. Viet Nam has since succeeded in expanding its exports to other markets, particularly Western Europe.

Viet Nam's membership of the ASEAN Free-Trade Area (AFTA) is eventually expected to attract international investors to the region, as well as to strengthen the country's already extensive trade and investment links within ASEAN. The AFTA framework obliges Viet Nam to cut tariffs on trade with the other ASEAN countries, to 5 per cent or less by 2006. Viet Nam has also applied for membership of the World Trade Organization (WTO) and gained observer status in the WTO predecessor, the GATT, in July 1994.

2.2.3 Rate of inflation and currency exchange

The Viet Nam Government has brought the consumer price inflation rate down to below 10 per cent since 1995, as Table 2.4 shows. The Government established a new exchange-rate system in February 1999 to allow the VND:US dollar exchange rate to be adjusted gradually to changed market conditions. In principle, the official exchange rate can drift alongside the inter-bank market (in which banks inter-exchange VND for foreign currency). Since April 2001, the export companies are required to sell only 40 per cent of their earned foreign

currency (instead of 50 per cent previously) to the Government. This has reduced the tension in foreign currency shortages and stabilized the exchange rate.

Table 2.4: Inflation and exchange rates, Viet Nam, 1995-2001 (%)

	1995	1996	1997	1998	1999	2000	2001
Inflation*	12.7	4.5	3.6	9.2	0.1	-0.60	0.8
Exchange rate**	10.9	11.1	11.7	13.2	13.9	14.2	14.7

Notes: * Growth rate of the consumer price index from December of the previous year to December of the reported year.

** thousand VND per US\$; annual averages.

Source: GSO, 2001.

2.3 Labour market profile

2.3.1 Labour force size and composition

Population distribution

In 2001 the population of Viet Nam was estimated at 78.68 million, 1.35 per cent above its level in 2000, as shown in Table 2.5. The population is over 76 per cent rural and is concentrated in the two main rice-growing deltas: the Red River in the North and the Mekong in the South. The urban population is growing rapidly at 3.4 per cent annually and now accounts for about half of the annual increment in the country's population. The proportion of women is about 50.8 per cent of the total population. A targeted approach to gender issues is called for in the areas of concern that arise in traditional societies undergoing socio-economic development.

Table 2.5: Population structure* and distribution, according to sex and region, Viet Nam, 1995-2000

	1995	1996	1997	1998	1999	2000 (Est.)
Total (in thousand)	71,995.5	73,156.7	74,306.9	75,456.3	76,596.7	77,685.5
Distribution by sex (%)						
Men	48.94	49.01	49.08	49.15	49.17	49.16
Women	51.06	50.99	50.92	50.85	50.83	50.84
Distribution by region (%)						
Rural	79.25	78.92	77.34**	76.85	76.39	76.03
Urban	20.75	21.08	22.66**	23.15	23.61	23.97
Population growth rate (%)	1.65	1.61	1.57	1.55	1.51	1.42

Note: *Data revised on the basis of the results of the 1/4/1999 Population and Housing Census.

** In 1997, some rural communes became precincts or towns in several regions.

Source: GSO, 2001.

Although access to higher education has historically been limited, the introduction of near-universal primary education has produced high literacy rates. The Viet Nam Living Standards Survey, 1997-98, found that 89 per cent of the population over ten years of age was literate: 86 per cent of females and 94 per cent of males. The net primary school ratio in the year 2000 is 92 per cent of total, while net lower secondary school ratio stayed at 74 per cent and net upper secondary school ratio at 38 per cent (VNLSS 1998).

Poverty line

The proportion of people living in dire poverty has fallen sharply. In 1993, 23 per cent of the population lived in households that could not afford to buy basic food necessities, even when the total household income was pooled for this purpose. By 1999 this proportion had fallen to 13.3 per cent in urban and 15.96 per cent³ in rural areas.

From 2001, the Ministry of Labour, Invalid and Social Affairs (MOLISA) revised the national poverty line upwards. The new poverty line defines the monthly income (in current prices) per capita in poor households as VND 80,000 in rural mountainous areas; VND 100,000 in rural areas and VND 150,000 in urban areas. According to this, MOLISA estimates the poverty rate at the start of 2001 to be 17 per cent. The poverty rate shall be reduced to 10 per cent in 2010 as the national target of development (UNDP, 2001).

2.3.2 The employment profile

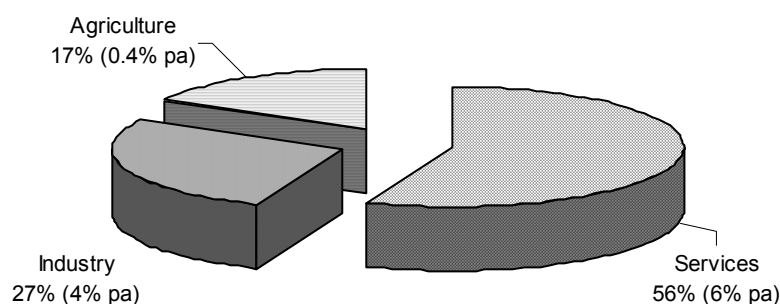
The growing labour force

Working age in Viet Nam is defined as 15-60 years for men and 15-55 years for women, representing 46.2 million or 59 per cent of total population. It is estimated that from 2001 to 2010, an annual average of 1.8 million people will enter this age span and 0.35 million will leave it – in other words, about 1.45 million new jobs are required every year.

Employment for persons aged 15 years and over was estimated by MOLISA to be 37,677 million in 2001. For a long time the share of women's employment has remained at about 50 to 52 per cent, but in 2000 it dropped to 49 per cent of the total labour force. Employment in Viet Nam should be seen within the context of the predominantly family-oriented nature of its economy. Viet Nam's labour force is still primarily living in rural areas and involved in agricultural activities, including livestock, aquaculture and forestry. In 2001, 60.7 per cent of the labour force reported agriculture, forestry or fishing as their main job. The services sector accounts for 20.5 per cent and the industrial sector has a small and fairly stagnant share in employment (14.1 per cent) with a slightly higher share in urban than in rural areas (MOLISA, 2001). As Figure 2.1 shows, more than half of the total employment growth during 1993-98 occurred in the services sector. In the industrial sector, unless appropriate policy interventions are enacted, employment expansion has a somewhat uncertain future. Recognition of this should accelerate the Government's growing interest in and support for the small-enterprise and HE sector. Creating more jobs in manufacturing sectors is also in line with a World Bank recommendation to improve investment quality and move towards a sounder economic structure (World Bank, 2000).

³ This is the GSO figure, according to the former national "food" poverty line, based on the annual per capita expenditures needed to consume basic food necessities in Viet Nam. It was defined at VND 750,000 in 1993, and VND 1,287,000 (= US\$92) in January 1998.

Figure 2.1: Contribution to total employment growth by sector, 1993-1998
(1993-98 average annual growth rate in brackets)



Source: GSO, VNLSS, 1998.

2.3.3 Unemployment

Open unemployment is now a feature of the Vietnamese economy and is set to grow in both urban and rural areas as the public sector sheds labour and economic growth slows. A significant proportion of the nominally “employed” is in reality underemployed, especially in rural areas, where the rate of working time of people aged 15 and above who have permanent jobs is around 70 per cent. Unemployment in urban areas was officially estimated at 6.2 per cent in 2001 (7.4 per cent in Hanoi), as Table 2.6 shows. In 2000 alone, official estimates showed that 1447,000 people of working age had no job; 52 per cent of this unemployed group live in rural areas (MOLISA 2001).

Table 2.6: Unemployment rates, 1996-2001

	1996	1997	1998	1999	2000	2001 (Est.)
National unemployment rate	5.8	6.0	6.8	7.4	6.4	6.2
Unemployment rate in Hanoi	7.7	8.5	9.1	10.3	7.9	7.4

Source: MOLISA, 2001.

An interesting feature of the Viet Nam labour force is that paid employees comprise only one-tenth of the labour force, the remainder are family workers. Even in urban areas, paid employees comprise less than 50 per cent of the labour force. While both unemployment and underemployment rates were reported to be slightly lower for women than for men in 1998, the latest MOLISA statistics estimate that this may be changing. In 2001 the unemployment rate among women was 7.1 per cent, higher than the total average rate of unemployment.

Even with a greater role assigned to non-agricultural employment, the rural sector still needs to create 70 per cent of the new jobs. Several micro-level programmes for job creation exist in Viet Nam, such as the establishment of a system of Centres for Employment Services; National Programme of Job Creation; and the Hunger Eradication and Poverty Alleviation Programme (HEPAP). Here, the first imperative would be to introduce macro-level policy

that embraces all major sectors of the economy and fosters the growth of more labour-intensive sectors by removing the existing biases against them. Part 3 will show that the HEs and private SMEs in the emerging domestic private sector have contributed most to employment, notwithstanding this sector's small size.⁴

2.4 Business environment

2.4.1 Infrastructure

Infrastructure in Viet Nam has developed rapidly since the introduction of *Doi Moi*. There are 210,000 km of roads, but only 13.5 per cent are considered to be in good condition; just 26 per cent have two or more lanes, and only 29 per cent are tarred. In the past decade, road use has increased by about 9 per cent per year. The demand for cars and motorbikes is growing rapidly and is overloading the streets of cities where only 8 per cent of the urban area is devoted to roads – a figure well below the international average of 15 per cent.

The railway system comprises six single-track routes totalling 3,260 km; the number of passengers-per-kilometre has been rising by about 8 per cent each year in the past decade. There are seven international seaports, which are highly competitive, handling about 10 million tonnes of freight annually.

By the end of 2001, the Viet Nam Post and Telecommunications Corporation (VNPT) had four million subscribers. Full Internet services became available in mid-1998 in both Hanoi and Ho Chi Minh City, and are now available in all large cities. Despite being expensive, Internet services had 200,000 subscribers by the end of 2001 compared with 16,000 at the end of 1998.

Commercial energy consumption in 1998 was about 10.2 million tonnes of oil equivalent, or 130 kg of oil equivalent per head (one of the lowest rates of energy consumption in the world, but not unusual for a poor country). By late 1999, 77 per cent of the country's 8,850 rural communes had access to the national power grid. Coal is the main form of commercial energy after oil, meeting about one-quarter of primary energy needs (excluding biomass). About 30 per cent of the outputs were exported and most of the remainder was used in power stations. Oil production in 2000 was 16.2 million tonnes. Crude oil is Viet Nam's leading export, earning US\$ 3.6 billion in 2000 (about 25 per cent of all export earnings). Imports of petroleum products amounted to US\$ 2 billion in the same year. The Government has formally approved the building of a 130,000-b/d-oil refinery⁵ at Dung Quat, in central Viet Nam.

2.4.2 Market and credit access

Financial markets and financing

The banking system in Viet Nam remains fragile, as the six big State-owned commercial banks have large backlogs of non-performing loans. The launch of a stock market finally took place in July 2000. However, only six firms have so far chosen to list on the stock exchange.

⁴ For example, it provides a quarter of industrial output but employs two-thirds of the industrial workforce.

⁵ b/d: barrels per day.

In 1998, just over 50 per cent of all households borrowed – either formally or informally. An estimated 40 per cent of the loans, representing 63 per cent of the amount borrowed, came from government banks (including the Bank for the Poor). The remainder was borrowed from informal sources, including (in descending order) relatives, friends, private moneylenders, development projects, credit cooperatives and associations. Public confidence in the banking system is low; only 4 per cent of people eligible for a bank account actually have one, and only one-quarter of savings are held in the banking system.

The property market and land funds

Access to land funds serving business activities is one of the greatest barriers to non-agricultural Vietnamese enterprises. The Land Law stipulates that the land belongs to the people, in common ownership. The State has separate levels of authorization on land use (central, municipal – the main level of Government in this domain – and district). It bases its decisions on land use according to the purpose specified and the acreage required. Individuals and organizations are entitled to transfer their rights to land use and can use this right as a pledge for bank loans.

For a long time, citizens and organizations have used the majority of land funds with no documentation to certify their right of land use. This has greatly hindered the formation of the real estate and property market. In urban areas, due to the limited land available, a majority of non-State enterprises rent land from State organizations or enterprises, or use their own house as their business site. The urban planning authorities rarely have a master plan for business areas. Some cities have established industrial zones especially for small and medium-sized enterprises. It is a step forward, but a drop in the ocean as far as developing the requisite business culture of Vietnamese small enterprises.

2.4.3 Institutions

Viet Nam has had four Constitutions, adopted in 1946, 1959, 1980 and 1992, each respectively regarded as appropriate to its time. The 1992 Constitution was geared to the era of renovation and was amended (January 7, 2002). Institutions in Viet Nam are mapped in Annex 2, as mentioned in Box 2.1.

The National Assembly remains the supreme legislative body. An assembly has a duration of five years and must meet at least twice a year. The National Assembly elects the President of Viet Nam who is its Head of State. The National Assembly also elects the Prime Minister who will nominate his ministers to comprise the Government (formerly the Council of Ministers) to the National Assembly for ratification. According to Article 109 of the Constitution (1992) “the Government is the subordinate organization of National Assembly, the highest administrative governmental organization of the Social Republic of Viet Nam”.

In terms of the State’s management of economy, the most important bodies are the Ministry of Planning and Investment (MPI), Ministry of Finance (MOF); Ministry of Science, Technology and Environment (MOSTE); Ministry of Labour, Invalid and Social Affairs (MOLISA); Ministry of Agriculture and Rural Development (MARD); Ministry of Trade (MOT) and Ministry of Industry (MOI). A special Central Committee of Renewal of Enterprises was set up some years ago to deal particularly with the restructuring of State-owned enterprises (SOEs).

Municipal and provincial authorities are the professional departments belonging to People's Committees. However, they have a dual relationship with both the People's Committees and the ministries of Central Government, excluding a small number of offices that are organized as a vertical branch of Central Government.

SOEs are organs of the State and are divided into two groups: those that are centrally managed – under the supervision of Central Government ministries – and those that are managed by provincial governments. Principal statutes are formed to supervise SOEs to enhance their “leading” position in the State economic sector in the national economy.

The Communist Party of Viet Nam sets the development directions for the country. Contributing views are expressed by organizations such as the Confederation of Labour Unions, the Viet Nam Women's Union and the Youth Union.

The Viet Nam Chamber of Commerce and Industry (VCCI) is the national representative of the business community, strongly influential with the Government in the processes of policy formulation. As non-governmental organization, its role is to pursue the interests of the business community in conjunction with those of the State.

The Viet Nam Cooperatives Alliance performs an important role in representing the interest of cooperatives, which are considered as one of the major economic units for the development of the State economic sector. Business associations are weak in Viet Nam, with no regulatory framework for their establishment, but they are permitted on a case-by-case basis. Annex 2 provides a detailed across-the-board guide to the institutions and organizations described above.

2.4.4 The concept and perception of entrepreneurship

A negative perception, disrespect, and discrimination against private enterprise have existed throughout Vietnamese history. Traditionally, business is the lowest rank of respectable society – the business person is socially far below that of “scholars, farmers, and workers”. The popular view is that people working in non-State companies are deemed to have a lower position than at SOEs. Talented students are more likely to be chosen to work at SOEs or FDI-funded companies. It is also believed that success in business comes, at least in part, as a result of illegal activities.

Since the introduction of the *Doi Moi*, most recent studies on Viet Nam recognize prominent changes in the business environment and in private sector development. While SOEs continue to dominate industrial output, the private sector plays a surprisingly important role in key manufacturing industries such as furniture, metal, wood, garments, and rubber and plastic production. The private sector also plays a dominant role in agriculture and domestic trade, but the sector mainly comprises individual entrepreneurs and HEs.

Recently, it has been shown that the position of businesspeople in the scale of social prestige “has been upgraded to number one”.⁶ However, the private sector still faces major institutional and policy disincentives in expanding and establishing formal business entities.

⁶ Dao Xuan Sam, 2000.

These disincentives are:

- a) a negative image of the private sector is consistent across sample groups;
- b) the private sector is overwhelmingly the least-preferred place of employment;
- c) the private sector faces discrimination from institutional lenders;
- d) the private sector faces discrimination from inputs suppliers and buyers of its products; and
- e) the media plays a crucial role in formulating public perceptions. As such, it should be relied on as a major player in any public relations efforts undertaken on behalf of the private sector (MPDF, 1999a).

The concept of entrepreneurship, regularly used in sociological and economic research circles, has rarely been paid attention to by businesspeople. What is the current understanding and definition of entrepreneurship in Viet Nam? To answer this question begs another: To what extent have people started a business and to what extent are owners and managers encouraged and accepted in their business ventures and risk-taking?

A partial answer is the number of HEs (2.1 million) and the more than 70,000 formally registered private enterprises – from which it can be extrapolated that 1 in 35 persons had established a start-up. Here it should be added that others among the 34 people who did not make this move may have chosen not to because of the policy and legal environment, or some other external factor.

The second part of the question raises a more important issue. Apart from the increase in the number of officially registered enterprises, the formalization of informal and semi-informal enterprises indicated the growing seriousness and commitment among businesspeople toward their business and the concept of entrepreneurship. Yet a large number of enterprises do not wish to broaden their business activities, lacking the will, or the skills, to face the constraints they perceive in their business environment.

It is the opinion of the author that, in many cases, Vietnamese businesspeople are too worried about the external environment, too often concerned with the differences between themselves and other businesses. These concerns become the initial constraint on Vietnamese business managers. Instead of devising an internal, systematic plan of business expansion, they attach business outcomes to external effects or to other people, rather than their own efforts or lack of them. Many Vietnamese businesspeople, including those who formed their businesses under earlier statutes, still maintain a dependence on the State and do not apply the spirit of the market-oriented statute and the concept of entrepreneurship.

In addition, many Vietnamese enterprises lack professional capabilities and skills. Business management education provided in universities has largely focused on medium-level professional knowledge that is more appropriate to large companies (accounting, statistics, wage management). Students have little opportunity for training that deals with enterprise start-up, business planning and small-enterprise management. Likewise they do not possess the skills required for selling, marketing, or human resources management. Many Vietnamese enterprises operate without this type of training and also lack the necessary information required for effective business development.

2.5 Observations

The business environment has discouraged businesspeople and, as a result, hindered the growth of entrepreneurship. There are four main reasons for this in Viet Nam. First, the high risks associated with enterprise development have been exacerbated by frequent changes in the government policies and laws applying to this sector. Even the most successful and well-known enterprise feels at risk when faced with the visits of State officials. Second, the social discrimination against private enterprises has stigmatized and hindered the exchange of successful experiences in business development and management. Third, mobilizing the requisite capital is often a considerable obstacle to enterprise owners and managers – a problem that stems not only from the financial and banking systems, but also from the limited access to land. Fourth, poor infrastructure has discouraged business development and entrepreneurship. Difficulties in access to water, electricity and the slow development of new facilities hamper business activities.

It is clear that the efforts required to develop and expand private enterprise are insufficient. For entrepreneurship to be promoted, for a more dynamic, strategic and systematic evolution of management to occur, then improving management skills in enterprises is one of many imperative steps. The economic significance of small enterprises in Viet Nam is discussed in Part 3, providing a comprehensive analysis of small and medium enterprises and examining the impact both of micro enterprises in formal private enterprise (registered according to the Enterprise Law) and household enterprises in the semi-formal sector.

3. Economic significance of small enterprises in Viet Nam

3.1 Defining micro, small and medium enterprises

Vietnamese economic and legal experts consider the terms “small and medium enterprises” and “micro and small enterprises” as imported definitions. An ongoing debate on the criteria underlying these definitions has been resolved temporarily by Document 681/CP-KTN, issued on 20 June 1998, which stipulated that small and medium enterprises should have a maximum registered capital of VND 5 billion (US\$ 387,600)⁷ and employ less than 200 persons. These criteria were established to obtain an initial overall picture of SMEs in Viet Nam for policy formulation. In practice, however, this definition did not accommodate micro or household enterprises, which require special consideration in the Vietnamese context. A later Decree, No. 90/2001/CP-NDD, 2001, officially defined SMEs as follows:

Small and medium enterprises are independent business and production establishments that have registered their business under the current legislation and have a registered capital of less than VND 10 billion or an average number of annual employees of less than 300.

This report is concerned with employment patterns in micro and small enterprises. However, it should be recognized that the prevailing paradigm for enterprises in Viet Nam relates more to their ownership structure than to their size. Table 1 in the Introduction clarifies the distinctions made between private enterprises, SOEs, and foreign direct investment enterprises and the status of formality – the legal recognition that is given to an enterprise. All SOEs, cooperatives, and FDI enterprises are formal enterprises. However, private enterprises can be found in both the formal and informal sectors. SMEs, for example, are considered to be formal enterprises, while household enterprises (HEs) are often considered to be “semi-formal”, in that they are often legally recognized, but are not given the same legal status as a formal enterprise.

To accommodate the interests of this report to the political and legal framework in which Viet Nam views private enterprises, the following focus was established. This analysis will concentrate on the issues facing private micro enterprises with one to ten employees, as well as private small enterprises with ten to 49 employees. This excludes SOEs and FDI enterprises. However, when required due to data availability or for purposes of comparison or interest, the official definition of SMEs, as stated above, which includes enterprises that employ up to 299 employees, will be used.

3.2 The importance of micro, small and medium enterprises in Viet Nam

3.2.1 SMEs: The overwhelming majority of private sector in Viet Nam

Table 3.1 shows the number of active non-farm enterprises in Viet Nam. The private non-farm sector comprises three groups of enterprises: household enterprises (HEs), private companies, and FDI-funded companies. HEs and SMEs constitute overwhelming proportions of private enterprises. However, only a small proportion of FDI-funded companies are SMEs.

⁷ According to the VND/US\$ exchange rate at the time of issue of Document 681.

This research focuses on private enterprises registered according to the Enterprise Law (formal sector) and the HEs but excludes FDI-funded companies.

Table 3.1: Structure of non-farm enterprises in Viet Nam, 1992-2001

Year	State-owned Enterprises	Cooperatives	Household Enterprises	Foreign Investment Companies	Annually Registered Private Enterprises
1992	6 365	n.a	1 066 000	106	3 985
1993	6 427	n.a	1 196 000	168	7 421
1994	6 372	n.a	1 279 000	344	7 176
1995	5 784	1 002	1 783 000	556	6 158
1996	5 343	973	1 457 000	717	5 485
1997	5 242	954	1 557 000	787	4 636
1998	4 819	928	1 596 000	979	4 252
1999	4 740	919	1 704 000	1 076	5 782
2000	5 500	864	1 810 000	n.a.	14 413
2001			2 100 000		18 000*

Note: According to data from the Ministry of Finance, by 30 September 2001, 66,071 enterprises were registered under the Enterprise Law and declared tax codes.

* Estimate.

Source: GSO, 2001 and MPI, 2001.

3.2.2 Household enterprises

Until recently, household enterprises were governed by Decree 66/HDBT, 1992, which was replaced by Decree No. 2 /ND-CP, 2000. Unlike street vendors and services providers with low incomes, which are often considered as informal sector, HEs have to register their business and pay business tax obligations. Prior to the enforcement of Decree No.2/ND- CP, those HEs willing to establish private enterprises were required to have a legal capital not less than the levels specified for private enterprises. Nevertheless, they belong more to the semi-informal than to the semi-formal sector.

Surveys vary in their estimates of HEs during 1995-1997: approximately 1.9 million (as of July 1995) or 1.4 million as December 1996. According to recent GSO statistics, the total number of non-farm HEs increased from 1 million in 1992 to 1.8 million in 2000, and 2.1 million by 2001 (GSO, 2001). However, GSO data include only HEs in industry and trade and therefore probably underestimate their total numbers.⁸

From 1990 to 1995, in the early years of the *Doi Moi*, MSEs, and particularly HEs, became the major provider of jobs, due to the closure of many large SOEs. The number of HEs increased rapidly over this period, except from 1995 to 1996. Some Vietnamese economists claim that the drop in the number of HEs is a result of Decree 36/CP, 1995, which forbids households from using public spaces (in streets or other defined areas) to prevent urban transportation from being obstructed and as a security measure. Another reason posited

⁸ A survey carried out by MPI and including probably other services estimated the number of non-farm HEs at 2.2 million in 1996 (Maud Hemlin, 1998).

by observers for the drop in HE numbers is the differences in statistical methods used during these two years.⁹

The fall in the number of HEs can also be explained by the fact that some of them grew in size, capital intensity and labour productivity, and finally moved to the formal sector during this period. More recently, the improved business environment and legal framework has encouraged the birth of new businesses in the form of formal private enterprises rather than HEs. Since the enforcement of the new Enterprise Law in February 2000, there are only 9 per cent of new formal private enterprises converted from HEs; the rest were new start-up businesses.

The average employment in HEs (including the owner) is 3.3 persons in rural enterprises and 6.3 persons in urban enterprises (GSO 1997). It can be said that almost 100 per cent of non-farm HEs have micro size. Most are engaged in activities in the services sector, especially in the retail sector, as Table 3.2 shows. Thus, it is not surprising that their share in the total industrial output is small (only 12.1 per cent).

Table 3.2: Distribution of private and household enterprises by activities, 1997-98 (% of enterprises)

	Non-Farm Household Enterprises 1997-1998			Formal Private Enterprises 1998
	National	Rural	Urban	
<i>Services Sector</i>	55.0	47.1	70.6	53.9
▪ Retail Sales	36.6	33.3	43.2	
<i>Manufacturing and Construction</i>	26.3	31.1	16.5	27.6
▪ Food Processing	9.5	12.1	4.4	
▪ Textiles and Garments	6.9	6.4	8.0	
<i>Agriculture-related, mining and other</i>	18.7	21.8	12.9	18.5
TOTAL	100.0	100.0	100.0	100.0

Source: GSO, 2000.

3.2.3 Vietnamese formal private enterprises

The establishment and operations of formal private enterprises in Viet Nam are subject to the Company Law (1990), and the Private Enterprise Law (1991). These laws were replaced by the Enterprise Law, which came into effect on 1 January 2000. The Enterprise Law provides for four legal entities: Private Company, Limited Liability Company, Joint Stock and Partnership Company. The majority of newly established enterprises are often in the form of private companies and limited liability companies of more than two members.

⁹ Data from the 1995 General Survey came from direct interviews with HE owners, while the data from the 1996 survey were based on questionnaires filled out by HE entrepreneurs; some questionnaires were not returned to the interviewers.

No statistics are available on the distribution of Vietnamese enterprises by size covering all non-farm industries at the national level. Moreover, available data are presented using different criteria for enterprise size classes, making it difficult to draw a comprehensive picture of enterprises classified by size. However, as Table 3.3 shows, all data available by size class for different categories of enterprises permit the following conclusion: MSEs constitute an overwhelming proportion of the private sector. It is estimated that more than 90 per cent of private enterprises are MSEs.¹⁰

There are several reasons to believe that the average number of employees given in statistical data only covers employment with formal labour contracts, and the true number of employees in the private sector is under-reported. Many employers do not recruit workers on a permanent basis due to a number of constraints in the Labour Code. First, the Government has put a ceiling on salary payments. This measure was taken for tax reasons to prevent enterprises from inflating their salary costs and, hence, reducing their taxable profits. Many companies, however, indicated their need to pay higher wages to recruit highly skilled labour. These employees are not contracted as regular labour. A second reason for under-reporting of employment is social security regulations. The social security taxation, which is 20 per cent of total income (15 per cent paid by the employer, 5 per cent by the employee), is too high for many enterprises. Finally, the employment data are collected on the enterprise and not on the establishment level, and employment in branches of companies are often not declared.

Table 3.3a: Private enterprises classified by size (excluding HEs), 1998

	1 to 100 workers	Over 100 workers	Total
Number	25399	622	26021
Share in total (%)	97.6	2.4	100.0

Source: GSO, 1999.

Table 3.3b: Non-farm rural enterprises (including HEs) classified by size, 1997 (%)

	1 to 10 workers	11 to 50 workers	51 to 100 workers	Over 100 workers	Total
Formal sector	52.7	37.2	4.6	4.5	100.0
Non-farm HEs	98.7	1.2	0.6	n.a.	100.0

n.a.: not available.

Source: MARD, 1998.

Table 3.3c: Industrial enterprises (excluding HEs) classified by size, 1998 (%)

	1 to 9 workers	10 to 49 workers	50 to 200 workers	Over 200 workers	Total
Total	34.4	32.8	18.9	13.8	100.0
Non-State sector	46.3	39.7	9.7	4.1	100.0

Source: GSO, 1999.

¹⁰ Although non-State industrial enterprises MSEs represent 86.1 per cent of enterprises in this sector, it is believed that the MSE share in the whole private sector is higher (at least 90 per cent) because the number of cooperatives is lower and MSEs have a larger share in trade than in industry.

Due to the lack of systematic data on Vietnamese enterprises classified by size, the analysis of MSE sectors will be carried out through the analysis of the private sector, which includes both formal private enterprises and semi-informal HEs. As discussed above, the bulk of these enterprises are MSEs. Indeed, the scope of the MSEs sector is wider, since there is a large share of MSEs in the cooperative sector, which belongs to the non-State sector. However, the VNLSS 2 shows such a very small share of wage earners in the cooperative sector (0.12 per cent of total number) that it is deemed negligible here. Consequently, in the following sections, large and medium enterprises, mainly SOEs and FDI-funded companies, and the characteristics of HEs and formal private MSEs are compared, to give an overview of the general situation in Viet Nam.

3.2.4 A closer look at MSEs through the private sector

Geographical location. The South is home to about three-quarters of all private enterprises and up to 80 per cent of manufacturing enterprises. Ho Chi Minh City alone accounts for one-quarter of total companies (12 per cent of manufacturing enterprises) and nearly one-third of all people employed in the private enterprises. About 18 per cent of private companies are located in the North.

Sectoral distribution. Private enterprises are highly concentrated in a few sectors. In 1999, trade accounted for almost half of all private companies, followed by manufacturing and construction with a share of 27.6 per cent (see Table 3.2).

3.2.5 The private-sector contribution to GDP

The data on sectoral contributions to GDP issued by the General Statistical Office is not classified by enterprise size. However, as stated earlier, since the MSEs constitute an overwhelming proportion of HEs and private companies, their contribution to GDP may be roughly calculated by the contribution of HEs and the formal registered private sector. Whereas the contribution to GDP of the household sector and farms decreased slightly, from 35.9 per cent in 1995 to 33.1 per cent in 1999, the State sector contribution increased slightly, to 41.4 per cent in 1997 and decreased to 41.1 per cent in 1999. The share of the FDI-funded sector increased from 7 to 10 per cent of GDP in the past five years, which was compensated by a reduction in the share of both the household and collectives sectors. As Table 3.4 shows, from 1995 to 1999, the share of the formal private sector remained fairly constant at 7.5 per cent of GDP. It is estimated that the non-farm household sector contributes about 19 per cent to GDP.¹¹ Thus, the private sector overall contributes around 26 per cent of GDP.¹²

¹¹ The data is from unpublished sources of GSO.

¹² Some sources estimate the contribution to GDP of the household and private sector at 40.5 per cent in 1999. This estimate, however, includes the contribution of farms.

Table 3.4: GDP contribution of enterprises, according to form of ownership, 1995-1999 (%)

	1995	1996	1997	1998	1999
Total	100.00	100.00	100.00	100.00	100.00
State Sector	40.10	40.80	41.40	41.30	41.10
Non-State Sector	59.90	59.20	58.60	58.70	58.90
<i>Of which:</i>					
Domestic	53.20	51.90	50.40	49.50	48.90
Household and Farms	35.94	35.03	34.22	33.45	33.18
Formal Private	7.56	7.65	7.50	7.50	7.31
Collectives	9.70	9.19	8.72	8.54	8.44
FDI-funded enterprises	6.70	7.30	8.20	9.20	10.00

Source: GSO, 2001.

3.2.6 Some key characteristics of private enterprises

Most private enterprises are micro or small enterprises. Table 3.5 shows that the biggest firms are found in limited and shareholder enterprises, where each firm employs, on average, 32 workers, 30 of whom are wage-earners. This is in sharp contrast to household and private companies in both urban and rural areas. HEs in rural areas employ on average less than 5 workers, whereas those in urban areas employ around 6 workers.

Table 3.5 Main economic characteristics of surveyed private enterprises* according to business structure, 1996 (VND thousand)

	Urban			Rural		
	Household	Private company	Limited & sharehold	Household	Private Company	Other forms
Total income	208 797	1 273 722	2 680 609	62 113	868 500	1 521 963
Workforce	5.7	22.5	31.9	3.5	17.2	30.0
- full time	5.3	21.6	29.7	3.0	14.1	24.7
Wage workers	3.6	20.7	30.5	1.2	14.5	27.4
- full time	3.4	20.0	28.3	1.0	11.2	22.8
Value added/worker	10 982	17 455	21 322	7 699	13 656	14 545
Assets/worker	28 015	51 759	71 453	12 565	29 022	50 709
Wage cost/worker	6 027	7 253	6 875	5 136	5 250	5 091
% profit/own assets	32.3	16.9	13.7	65.6	26.8	9.2

*Note: * Based on a survey of 744 private enterprises in operation.
Source: Maud Hemlin, 1998.*

Total average incomes are much higher in urban than in rural private enterprises. Limited liability and shareholding companies in urban areas have total incomes more than three times that of rural sole proprietorships. The average level of income is VND 62 million for rural HEs, although half of them do not achieve an income above VND 40 million. The average income in urban HEs is VND 209 million, but no more than one-third of urban HEs surpass this level.¹³

The value-added per worker is a good indicator of the differences in productivity levels between the formal and semi-formal sectors. Value-added per worker in the formal sector is nearly twice that of semi-formal HEs. For urban private enterprises, the same indicator is 1.5 times higher than for those in rural areas. These differences may be the result of the higher share of wage workers in the formal sector and the stronger economic situation of urban enterprises.

3.3 Assessing the employment share of MSEs

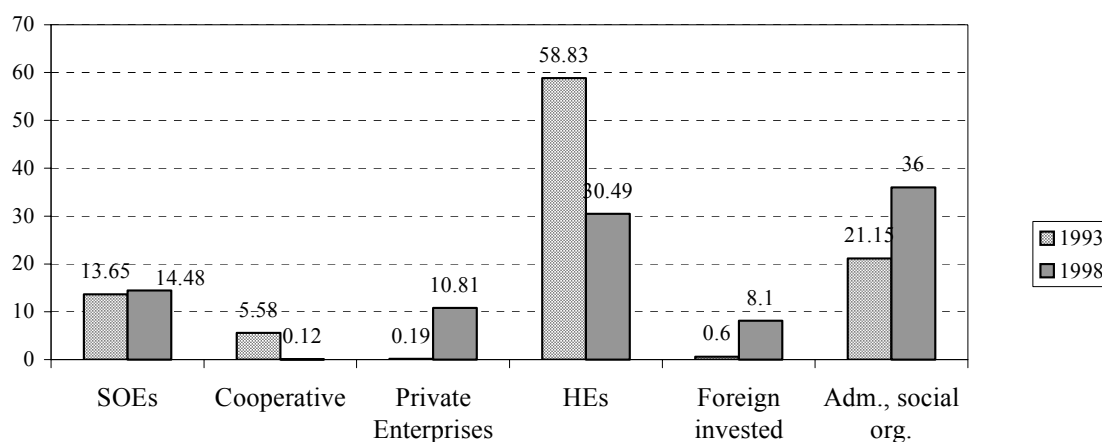
3.3.1 Employment in the private sector

The growth of the private sector has been significant, and the sector now mainly comprises MSEs, with an estimated 70,000 registered private enterprises (which include private, limited liability and joint stock companies) and 2.1 million HEs. Because regulatory requirements and problems of access to capital, technology and markets have limited the potential of the formal private sector, the overall contribution of MSEs to employment growth is small in comparison with other Asian countries. Nonetheless, the domestic private sector's contribution to Viet Nam's economy is significant. More than 40 per cent of total non-farm paid jobs (excluding jobs in administrative and social organizations) were provided by this sector in 1998, compared to only 15 per cent by SOEs.

As Figure 3.1 shows, the household sector dominates the private sector, contributing 30.5 per cent of total salaried employment. But this trend is on the decrease because the average number of employees created by this type of enterprise is small. Although the share of the formal private sector in GDP (which is mainly concentrated in industrial and service sectors) is still small at 7.3 per cent, this sector has shown a strong capacity to create employment. Figure 3.1 also shows that the formal private-sector contribution to salaried employment has increased from a very low level of 0.2 per cent in 1993 to over 10 per cent just five years later. In Table 3.6, the preliminary results of the annual survey on employment carried out jointly by MOLISA and GSO in 2001 show a colourful picture on the employment share by ownership, that confirms the private enterprises and HE as a major engine of job creation in Viet Nam's non-farm sector.

¹³ Maud Hemlin, 1998.

Figure 3.1: Salaried employment according to form of ownership, as a percentage of total salaried employment



Source: GSO, 2000.

Table 3.6: Share of population over 15 years old having a permanent job by form of ownership

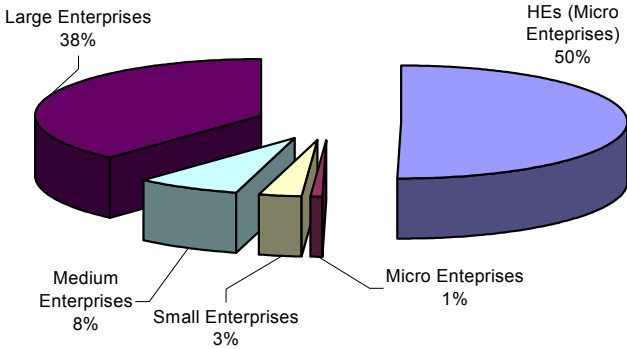
Economic activities	Unit	Total	Share by ownership form				
			SOEs	Collective	Private and mixed	HE	Enterprises with FDI
Total	Mill.	37.677	3.769	6.144	1.361	26.048	0.353
	%	100	10	16.31	3.61	69.14	0.94
<i>Of which:</i>							
Agricultural, forestry and fishery	Mill.	23.654	0.279	5.916	0.165	17.279	0.013
<i>Share of total</i>	%	62.78	0.74	15.70	0.44	45.86	0.03
Other economic activities (non-farm sector)	Mill.	13.880	3.488	0.226	1.173	8.652	0.340
<i>Share of total</i>	%	37.22	9.26	0.61	3.17	23.28	0.91
Share in non-farm sector	%	100	24.8	1.65	8.55	62.55	2.45

Source: MOLISA-GSO, 2001.

3.3.2 Employment in industrial MSEs

The importance of the HE sector in providing employment is again emphasized by the General Survey on the Industrial Sector (GSO, 1999), which showed that half of the jobs in this sector is provided by the HE sector, as shown in Figure 3.2. Formal micro and small enterprises do not make a significant contribution to employment in the industrial sector, since most of the labour-intensive industrial enterprises are of medium size. The reader is here reminded that Vietnamese MSEs are mainly concentrated in trade and services.

Figure 3.2: Employment share of industrial MSEs, 1999



*Note: Medium enterprises in Figure 3.2 are defined as from 50 to 200 workers only.
Source: GSO, 1999.*

The employment capacity of MSEs is also distinguished by their low average cost per job created. When comparing average costs per job between small and medium enterprises, it was found that small enterprises do not create as many jobs per VND 1 of capital as medium enterprises with 50 to 200 workers.¹⁴ The capital cost of creating a job is higher in State-owned and FDI enterprises. The capital cost to create a job in the formal private sector is on average VND 26 million; in the State sector, VND 41 million. By far the highest cost was in the FDI sector, with VND 294 million spent for each job created (UNIDO, 2000).

In all probability, the true capital cost of creating a job in the SOE sector is higher than the official figures for capital/labour ratios. First, fixed assets in SOEs are evaluated at their depreciated value and not at their opportunity cost. Second, the total land value for SOEs is underestimated, as land is often recorded as current cost (rent) and not capital cost. And finally, the SOE sector has a considerable amount of excess labour. Since 2001, the Vietnamese Government has not established any SOE. Among the existing SOEs, there are 40 per cent operating without profit or efficiency: the total debts of SOEs have attained VND 190,000 billion (US\$ 13.1 billion) or 33 per cent of GDP.

3.3.3 Working women in the MSE sector

Women account for about 49 per cent of the total labour force; 51 per cent in agriculture, 49 per cent in services and 48 per cent in industry and construction (MOLISA, 1999). Changes in the labour market following the adoption of *Doi Moi* have significantly influenced women’s access to employment. On the negative side, the excess labour available due to the equitization or closure of SOEs has affected more women than men, with estimates of women's share of redundancies varying from 60 to 75 per cent. More positively, women have benefited from the new job opportunities opening up with the development of industrial

¹⁴ Due to the lack of statistical data on average costs per job in Vietnamese MSEs, calculations of this indicator and comparisons among enterprises are made in only one sector.

zones and the growth of private-sector enterprises, particularly the MSEs. In industrial enterprises with more than 10 workers, the ratio drops: 43 per cent female to 57 per cent of male workers. However, only 4 in 10 technically trained workers are women. The industrial private sector provides more jobs for women than men, as Table 3.7 shows. In industrial HEs, women represent 40.8 per cent of the total workforce. As a key characteristic of these establishments is that their owners are self-employed, it is estimated that women head 27 per cent of micro-enterprises or family-run businesses.

Table 3.7: Working women in the industrial sector

	SOEs	Cooperatives	Private Sector	Household Enterprises	FDI Enterprises
Average employment	40.9	80.9	45.9	2.4	291
Share of working women (% of total)	47.6	55.7	59.6	40.8	61.9

Source: GSO, 1999.

Similarly to many other developing countries, female employment tends to be highly concentrated in industries such as textiles, garments and leather, and food processing in which, for the most part, women comprise the majority of unskilled workers. Wage differentials also follow patterns common elsewhere. A 1997/98 survey by MOLISA found that, in the MSE sector, the average income for women amounted to only 88 per cent of the average income for same-skilled men. A similar differential was found in the survey conducted by VCCI in 2001. The Labour Code provides specifically for women labourers, but its implementation is problematic and other economic policies and hunger eradication and poverty elimination programmes are resorted to.

3.3.4 Child labour in the MSE sector

Child labour does not exist in the formal and State-owned sectors in Viet Nam: it is mainly limited in rural areas to work in family businesses. However, the study conducted by MOLISA suggests that the problem is increasing in the fast-growing informal sector, where children work as employees or trainees, or as seasonal migrants, doing any available jobs in small businesses, serving in small restaurants and polishing shoes.

Accurate analysis of the situation is difficult. Up-to-date statistical information is urgently required to determine the extent of the problem. The Government is alert to the emergence of this issue and, as a signatory to the ILO Convention No. 182, Worst Forms of Child Labour (1999), Viet Nam has voiced its commitment to addressing the problem. The MOLISA is currently carrying out an action plan to prevent child labour and so is the trade union movement.

3.4 Job quality

3.4.1 Remuneration levels

Employee income

This section assesses the average earnings of workers in Viet Nam, according to age, sex, business location, urban or rural areas, business sector, socio-professional categories and

the labour relationship. A worker's average earnings comprise two main parts: salary and allowance.

The average hourly income for the entire labour force is VND 2,346 (MOLISA, 1999). The gap in earnings between large and MSE enterprises can be deduced from the wide gaps in the average earnings of workers in large State-owned enterprises and private enterprises. Interestingly, as Table 3.8 shows, the earnings of workers of MSEs, including HEs, tend to be higher than that of workers in the State sector, Party organizations and associations and particularly the cooperative sector – indicating that MSEs are the major source of good quality jobs in regard to their earnings.

The results of the VCCI Survey on MSEs (2001) capture the situation in MSEs in Table 3.9. More than 80 per cent of unskilled workers have average earnings not exceeding VND 800,000 per month. Only 10 per cent have average earnings of VND 800,000 to 1,000,000 per month. The number of workers with average earnings over VND 1 million is very low.

Table 3.8: Average remuneration and allowances of workers in primary jobs, according to enterprise form of ownership, 1997-1998 (VND thousand)

Form of ownership	Remuneration	Allowance
All enterprises	600.8	106.0
• State-owned	734.5	217.3
• Enterprises under Party organizations and associations	391.7	88.2
• Cooperatives	248.2	21.3
• Private enterprises	748.9	103.7
• Household enterprises	623.8	44.5
• FDI-funded enterprises	795.7	172.3
Urban	721.6	166.8
Rural	496.3	49.1
Male	645.5	114.6
Female	533.3	93.0

Source: GSO, 2000.

Almost 95 per cent of working women have no opportunity to increase their earnings to the level of VND 800,000 per month; only 6 per cent of women have average earnings over 800,000 VND/month. Female earnings are always lower than male earnings; women work in low-skill labour and low-wage sectors. Table 3.8 also shows that female average earnings account for 82 per cent of male average earnings, a figure that is even lower in the agricultural sector.

Earnings vary with age, increasing gradually between age 30 to 50 and declining thereafter. Average incomes are higher for men than for women, a gap that tends to increase between the ages of 20 to 50 and lessens thereafter.

The income levels for crafts and trades workers are also much higher than the average, but vary greatly with age. They reach a maximum for the 40-49 age group, and decline rapidly thereafter. The pattern in terms of age is similar for unskilled labourers at a lower income average, and with fewer variations. On the other hand, the average hourly income for skilled labour tends to increase with age.

Table 3.9: Average earnings of workers per capita in surveyed MSEs (% of responses)

Income (VND thousand)	Skilled workers	Unskilled workers	Women workers
Less than 400	6.5	25.3	40.8
400-800	54.6	57.5	53.6
800-1,000	16.6	10.6	6.1
More than 1,000	22.3	6.2	0.0

Source: VCCI Survey, 2001.

Salaried workers with written contracts are those with the highest average hourly income. As in this study, income means the combination of all conceivable income, including regular or one time bonuses and other allowances, the stability on monthly income varies with the type of employer and the mode of payment for these workers, as shown in Table 3.10.

Table 3.10: Income stability and mode of payment (%)

Mode of payment	Share of workers receiving a stable income	Share of workers on this mode of payment
Per month	89.8	16.1
Per week	82.7	0.8
Per piece/service	63.6	71.2
Lump sum	49.4	4.2
Per day	41.5	7.6
Per hour	38.5	0.1
Total	65.7	100.0

Source: MOLISA, 1999.

Salaries and wages in rural industries

The gaps in earnings between urban and rural enterprises are significant: the total earnings of a rural worker account for only 57.8 per cent of that of an urban worker (see Table 3.8). Average pay for a rural time-rated worker is about half that of the urban worker. This also implies that hours of work per month for rural workers are longer than for urban workers. Table 3.11 presents selected data on rural industrial units. Average monthly salaries and wages paid to employees in rural areas may reflect a well-functioning labour market in terms of levels of salaries and wages. Average monthly payments to employees in non-farm HEs and mixed-type households are at 365,000 and 303,000 VND respectively, higher than the monthly average earnings of VND 263,000 - 288,000 in agro-processing and other industry and construction. This is explained by the fact that self-employed business owners earn considerably more than externally hired labour, thus raising the average for units with few employees compared to larger units with more employees.

Table 3.11: Selected data on rural industrial units in 1997

	Agro-processing	Other industry	Non-farm HE
Number of permanent workers per unit*	22	27	3
% female	46	48	43
Monthly salaries/wages per employee (VND thousand)	263	288	365
Total capital/unit (VND million)	292	428	23
Total capital/employee (VND million)	13	16	8
Value added per employee (VND million)	7.4	7	6.6
Area of facilities/employee (m ²)	51	107	18
Insufficient electricity supply (% of all units)	15	19	3
Insufficient water supply	N/a	18	20

Note: * Includes the owner/head of household.

Source: MARD, 1998.

3.4.2 Job security

Contractual status

Decree No. 198-CP of 31/12/94 states the mandatory requirements of written labour contract (Article 1). It is estimated that 82 per cent of salaried employees have contracts, of which 88 per cent are written contracts (MOLISA, 1999). Workers with no labour contract are largely represented among employees of household and small-scale enterprises.

Table 3.12 underlines an important difference between written and verbal contracts. Almost three-quarters of written contracts are permanent contracts. It is the opposite in the case of verbal contracts, which involve less administrative work and are more suited for short duration contracts, particularly for hired-wage workers. Based on mutual trust, it is the predominant type of arrangement for employment by individual employers, HEs and the domestic private sector. Nevertheless, it introduces practical difficulties in case of litigation.

Table 3.12: Labour contract, full-time and part-time employment (%)

Labour contract	Duration of the labour contract	Type of labour contract		Total
		Full time	Part time	
Written contract	Permanent	65.8	5.3	71.1
	Limited	27.5	1.4	28.9
	<i>Total</i>	93.3	6.7	100.0
Verbal contract	Permanent	16.9	8.0	24.9
	Limited	72.3	2.8	75.1
	<i>Total</i>	89.2	10.8	100.0

<i>Total</i>	92.6	7.4	100.0
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Source: MOLISA, 1999.

Contractual status in private MSEs

The VCCI Survey (2001) of 312 MSEs indicated that only 29.8 per cent of directors surveyed had provided written employment contracts to workers, giving unclear Labour Code regulations as the reason. This is understandable in the circumstances: due to their small scale, most MSEs must employ seasonal or part-time workers only during harvest months.

The MOLISA survey indicated that employees, including apprentices and trainees without payment, constitute 21 per cent of the labour force. The remaining 79 per cent are comprised of employers and own-account workers in their own households, who fall well outside the provenance of the Labour Code. In industrial HEs professional workers constitute 87.6 per cent of paid workers; however, the share of paid workers represents only 41.6 per cent of the total workforce in industrial HEs (GSO, 1999). The non-earning family workers and one-quarter of other employees declare they have no labour contract. The case of contributing family workers is particular, due to the nature of their relationship with their employers. Their dues and rights in terms of their contribution to the common gainful activity depend equally on their physical and professional capacities and their personal relationships within the household; as such, they are mainly determined outside the economic sphere.

Table 3.13: Social security contributions and benefits from employers in surveyed MSEs (%)

	Provided	Not provided
Social insurance	16.3	83.7
Health insurance	14.7	85.3
Life insurance	9.0	91.0
Other social welfare	6.4	93.6
Sick-leave remuneration	36.8	63.2
Maternity benefit	11.9	88.1

Source: VCCI Survey, 2001.

Although social contributions and benefits are stipulated as compulsory in the Labour Code, only 16.3 per cent of MSEs reported that they have provided social insurance for their employees. As Table 3.13 shows, social benefits such as health, life insurance and other payments are rarely provided for the workers. The situation regarding sick-leave remuneration is much better: 30.1 per cent of interviews reported that their employees have received full salary during sick leave; 23.1 per cent provided partial salary on sick-leave time. Less than half of the respondents have provided no salary for their employees during sick-leave time.

3.4.3 Working conditions

According to surveys carried out by MOLISA, working conditions in MSEs require urgent improvements. The majority of workers are exposed to a range of safety and health hazards including dust, toxic chemicals, noise, heat, vibration, outdated technology, poor lighting and work ergonomics and biological hazards. Long working hours are common, particularly in domestic private enterprises. The most hazardous occupations are found in agriculture, construction, mining, fishing and in the textile industry. The number of fatal industrial accidents rose from 264 in 1995 to 362 in 1998. According to MOLISA, Ho Chi Minh City, Quang Ninh, Ha Noi and Dong Nai provinces accounted for a disproportionately

large share of these fatalities and of the 2,914 other work-related injuries recorded that same year. Given that current reporting and notification mechanisms are inadequate, it is probable that these figures are much higher in reality. In 1997, the Ministry of Health reported close to 630,000 cases of work-related diseases, the most serious of which is silicosis, with 9,000 cases recorded between 1978 and 1997. The Ministry estimated that 260,000 workers in more than 300 enterprises are exposed to high silica dust levels. Up to 80.1 per cent of MSEs reported not using protective work clothing or applying the concept of safety at work.

Regarding the frequency and severity of work accidents, 8.3 per cent of surveyed enterprises reported that at least one work accident had occurred in their enterprises in the preceding two years. About 91 per cent claimed no work accident in their enterprises during this two-year period (VCCI, 2001b). However, most respondents agreed that working conditions in MSE required major improvements.

Most MSE respondents found it difficult to determine whether work-related diseases affected their workers or not: 90.7 per cent could not answer this question. The Ministry of Health has issued a circular stipulating that each SME should have one person in charge of health care to look after their workers – in practice an unrealistic solution, even for Vietnamese medium-sized enterprises. The data show that 8.8 per cent of surveyed enterprises reported that 5 per cent of their workers were affected by work-related diseases.

Minimal sanitary installations in all surveyed enterprises (no toilets, 13.8 per cent; no clean drinking-water, 14.7 per cent; and no daily factory cleaning, 26.6 per cent) indicate a limited awareness of good working conditions in MSEs. Some managers did not realize that good working conditions bring benefits not only to workers but also to owners, by improving productivity. Monthly expenditure on sanitary installations or items varied from VND 50,000 to 300,000, depending on enterprise total revenue (VCCI, 2001b).

Duration of work

Officially, the maximum weekly duration of work is 48 hours, but only for workers with formalized, written labour contracts. Non-salaried workers have the highest dispersion in terms of duration of work.

The public sector shows the most consistent distribution and maximum conformity with regulations on working hours. This is also the case in the registered private sector which, nevertheless, has less employees working in reduced weekly hours and more working over 48 hours a week, in comparison with the public sector. In general, hours worked over the legal limit of 48 hours are rarely paid. Overtime is considered for payment in 5 per cent of the public and registered private sectors, and in 1 per cent of other enterprises. In the public sector, the number of employees working more than 48 hours is much lower than in other sectors. In the registered private sector, about 5 per cent of workers work less than 32 hours per week, but 42 per cent work more than 48 hours a week. It is important to remember that half of the employees in this sector have only verbal contracts. Only 20 per cent of MSE employees have written contracts. Of these, about 15 per cent (of whom 93 per cent manage the enterprise) work less than 16 hours per week (MOLISA, 1999).

The independent workers are the most vulnerable, without the protection of written contracts and pressured by their employers or clients to work weekly hours that surpass the legal maximum of 48 hours. Meanwhile, 20 per cent work less than 32 hours. This may be the

outcome of individual preferences, although more likely a result of the difficulties faced by this category of worker in finding work.

Within the HEs, a significant share of workers work under the average of 32 hours a week, particularly in agriculture. On the contrary, of those working in their own HE, 32 per cent work more than 48 hours a week. But those employed by household enterprises not their own also work more than 48 hours a week – 50 per cent of them, in fact.

3.4.4 Environmental issues

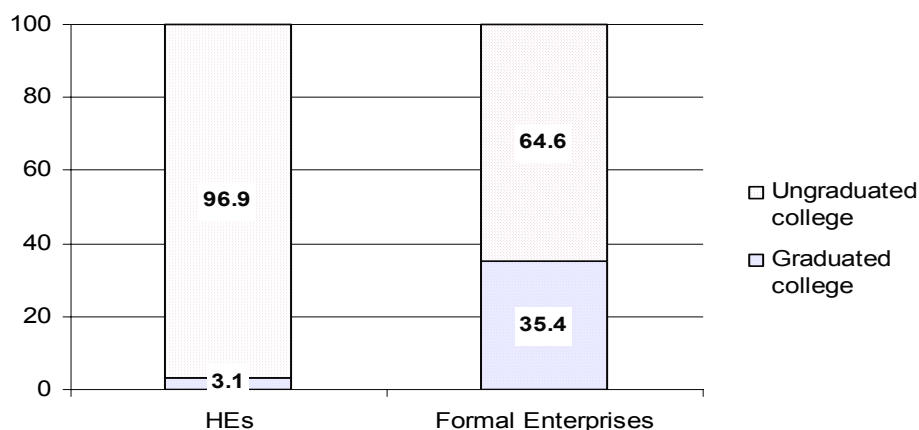
The MARD study shows that industrial pollution has not yet become a major problem in rural areas. Some environmental damage is occurring in outfishing coastal waters. Continued unsustainable logging also threatens eco-systems and erodes future supply of inputs for industries based on these resources (UNIDO-MARD, 2000). Two identifiable sources of pollution are: (i) the large, often State-owned, companies with a lack of environmental-control facilities and (ii) small-scale industries, which are often attached to households and which directly affect the family's living environment. These production units are often agglomerated in villages and, locally, cause serious water and air pollution. Local water pollution occurs in villages with food processing, tanning, fabric-dyeing and paper production. Air pollution is observed in villages engaged in the production of bricks, lime and ceramics or those housing small foundries. Although the pollution per enterprise is low, continuous exposure within residential areas results in environmental health problems. The MARD survey assessed 52 per cent of rural production units as causing some adverse impact on the environment.

Industrial waste treatment is established in about half of the large SOEs and FDI-funded enterprises, and in only one-third of private enterprises. Unfortunately, only half of all enterprises (regardless of form of ownership) can handle more than 75 per cent of their waste problem (GSO, 1999).

3.4.5 Staff development

Figure 3.3 shows the huge difference in the educational levels of workers in formal and semi-formal sectors. The share of skilled trained workers and workers with higher education (college and university) in industrial HEs is 3.14 per cent and 35.4 per cent in formal industrial enterprises (GSO, 1999).

Figure 3.3: Education levels of industrial workers employed in HEs and formal enterprises (%)



Source: GSO, 1999.

About 73 per cent of MSEs surveyed provided on-the-job training in the preceding two years. Few managers (18.6 per cent) had provided off-the-job training from the various State-run training institutions (VCCI, 2001b). Most jobs are either in the unskilled category, or managers have difficulties in finding funds for off-the-job training, which necessitates larger subsidies than on-the-job training. The concept of structured on-the-job training is widely unknown in Viet Nam.

3.5 Employer characteristics

Table 3.14 shows that 80 per cent of enterprises are owned by men and 20 per cent by women. The share of women-owned firms has slightly increased recently to 21.2 per cent (CIEM, 2001). However, the ratio of women-owned HEs is higher, implying that the new economic policies, as well as the business environment, are encouraging more women to participate in business activities. The actual ratio of women-owned MSEs is most probably higher, due to the “male breadwinner” social perception of the man as traditional “head” of the family. Many MSEs are registered in husbands’ name but fully managed by women.

Table 3.14: MSE owners, according to sex (%)

	Urban		Rural	
		Non-farm establishment		HE
Men	80.0	86.1		77.6
Women	20.0	13.9		22.4

Sources: GSO, 1997 (for urban areas) and MARD, 1998 (for rural areas).

The age profile of the entrepreneurs of household and private enterprises shows that there are very few entrepreneurs less than 29 years of age. Almost 66.6 per cent are in the age group 30-49 years and 30.6 per cent of owner-managers older than 50 years (GSO, 1997). This finding may be interpreted in two ways: either middle-aged, previously employed individuals are voluntarily starting their entrepreneurial careers with HEs, constituting a “pull” factor of entrepreneurship. Or; they may have been forced to resort to HEs as an

immediate, alternative income source after being retrenched from positions of high responsibility in the State sector.

Table 3.15: Age of HE managers (%), 1997 and 2001

1997		2001	
Less than 29 years	2.8	Less than 24 years	2.6
30-39 years	33.3	25-39 years	47.1
40-49 years	33.3	40-55 years	42.0
50 years and over	30.6	55 years and over	8.3
Total	100.0	Total	100.0
Average age	44.5	Average age	42.2

Source: GSO, 1997 and VCCI Survey, 2001.

The VCCI Survey 2001 shows the same trend of own-business participation by young and middle-aged people. However, the percentage of owner-managers older than 50 years seems to decrease. The VCCI Survey 2001 also provides detailed information on the educational levels of MSE owners: 33 per cent of managers surveyed had some post secondary school education and nearly 30 per cent of them had graduated at a university. These figures may be the result of the share of government spending allocated to education which rose to nearly 12 per cent in 1996, from just under 5 per cent in 1989.

As shown in the VCCI Survey 2001, the overall picture that emerges is middle-aged male employers with ten or more years of education and previously employed in a position of responsibility, most probably in the State sector. More than 19 per cent of MSE owners were employees of SOEs, which reflects the result of the equitization of the State sector in Viet Nam. Thirty one per cent of entrepreneurs have prior experience in running other businesses. The rate of 9.9 per cent of MSE owners, who were previously unemployed, indicates that MSEs are a good solution to the problem of unemployment.

The majority of MSE managers (97.8 per cent) are *Kinh*. This is significant in a context where the country's delta populations are almost entirely ethnic Vietnamese (*Kinh*). The second largest proportion of managers is Chinese (1.9). The 1989 census counted 962,000 Chinese, but the figure is now believed to be more than a 1.5 million. The Chinese business community remains vibrant, particularly in and around Ho Chi Minh. Only 0.7 per cent of managers are from minority groups.

Part 4 now looks in detail at the regulatory framework in Viet Nam and its implications for MSE structure, operation and development. Investment and capital mobilization, policy on business start-up, trade, labour and taxation are examined from the MSE perspective. At the end of each section, the reader will find a brief summary treating each of these issues and some capsule recommendations under the heading *Observations*.

4. The regulatory framework on business entity, structure and operation

As in many other countries, in Viet Nam policies are promulgated at both central and local levels to stipulate the basic entities and principles of business structure and operation. Table 4.1 overviews the different strata of legislation, the issuing authorities, their objectives and jurisdiction.

Table 4.1: Legislative overview

Type of legislation	Issuing authority	Description
State Constitution	National Assembly	Main law with highest legal effectiveness
Laws and Codes	National Assembly	To specify the Constitution; governs social relations
Ordinances	Standing Committee of National Assembly	Lower legal effectiveness than Constitution and Laws, but is the highest sub-law document
Orders of the President	President of the State	Makes official the decisions of National Assembly or Standing Committee of National Assembly
Resolutions and Decrees	Government and Prime Minister	Issued by the Government, to specify laws and ordinances
Decisions of the Prime Minister	Prime Minister	Issued by the Prime Minister for governmental administering and monitoring activities
Circulars	Ministers, heads of ministerial-level agencies and heads of governmental agencies	To enforce laws, ordinances and Government's regulations

The Government also stipulates various programmes to enact policies, with specific targets to be reached, organizations to implement the programmes, their budgets and schedules.

4.1 Laws and policies directly related to MSEs

The need to create a favourable environment for the development of small enterprises is reflected in the results of numerous surveys and research. The problem of State governance of the economy on a wide range of issues, such as institutions, policy and administrative procedures, is of public concern and is popularly considered the main reason for business difficulties.¹⁵ Criticism is particularly aimed at shortcomings in the policy environment, the failure to create a favourable policy and legislative base for the development of enterprise and the promotion of entrepreneurship. This section assesses the overall policy environment for small enterprises, summarizing the laws affecting MSEs in Table 4.2.

¹⁵ Dao Xuan Sam, 2000.

Table 4.2: List and description of laws

Name of policy laws	Replacing	Main contents
Decree on Supporting Development of SMEs (2001)		This Decree is the specific policy for SMEs. It promulgates additional supporting policy for SME development in Viet Nam.
Enterprise Law (1999)	Law on Companies and Law on Private Enterprises (December 21, 1990) Decree No. 66/HDBT (March 2, 1992) on household businesses	The Enterprise Law (1999) and the Decree No. 02/2000 guiding the implementation of Enterprise Law provide the first modern legal framework for all domestic registered businesses. The law provides for the creation of companies by non-discretionary registration, rather than through Government approval and licensing.
Law on Business Bankruptcy (1993)		Stipulates the basis for assessment of a bankrupted business; procedures for application; and petition requesting bankruptcy declaration.
Law on Value-added Tax (1999)	Law on Turnover Tax, (1990)	Defines value-added tax, as that imposed on the added value of goods or services in the process of their production, circulation and consumption.
Law on Corporate Income Tax (1999)	Law on Profit Tax (1990)	Regulates subjects liable for corporate income tax prescribed by this Law (organizations and individuals involved in the production and trading of goods and services). General tax rate is 32 per cent, with some exceptions.
Labour Code (1994) Decree No. 77/2000/ND-CP, effective from 1.1.2001.		Governs labour relations in enterprises. Established minimum salary in Vietnamese enterprises at VND 210,000.
Law on Encouraging Domestic Investment (1994), amended in 1998		Defines incentives for domestic investments in socio-economically difficult areas; and strategic economic activities, including job creation
Commerce Law (1997)		The highest legal document regulating trade activities in Viet Nam.
The Ordinance on Technology Transfer Contracts (1988). Decree No. 45/1998/ND-CP, (1998)		The first legal framework for technology transfer; defines details of technology transfers.

4.2 SME-specific policy

4.2.1 Background

The drafting of a specific SME promotion policy in Viet Nam was instigated in Document No. 681CP-KTN, dated 20 June 1998. It assigned the Ministry of Planning and Investment as in charge of research on the promotion policy for SME development. Decree No. 90/ND-CP dated 23 November 2001 promulgated the supporting policy for development of SMEs in Viet Nam. This Decree clearly defines the criteria for SMEs in Viet Nam, including domestic enterprises of all economic sectors with less than 300 employees and with

registered capital of less than VND 10 billion (around US\$ 666,000). Micro-small enterprises and HEs are also subject to this Decree.

In the legislative system, the legal effectiveness of a decree is only second to that of a law. The Decree provides a legal framework for promoting the development of SMEs, job creation, employment issues, and improving general living standards. Many SME promotional measures are included in the Decree, including an investment promotion strategy; establishment of a Credit Guarantee Fund; support measures for production sites; market and competitiveness promotion; export promotion; information and consultation service; and staff development. It also provides for the establishment of three governmental agencies: a national SME Promotion Department; SME Technical Support Centres in Hanoi, Ho Chi Minh City and Da Nang, and a SME Development Encouragement Council. The task of the SME Development Encouragement Council, which consists of both governmental and business sector's representatives, is to make recommendations to the Government on policy and legal frameworks.

At time of writing, the Decree provides for only general SME promotion measures. More detailed measures and support models are required, which will entail further studies and tests. Nevertheless, its issue has had a visible impact on optimism for the future: up to 85.1 per cent of entrepreneurs surveyed thought their business would be "OK" or "good". Among entrepreneurs who thought their business would be "good" or "very good" (25.5 per cent), 47.4 per cent emphasized the importance of a good business environment (VCCI Survey 2001). The Decree reflects the Vietnamese Government's effort to create a favourable business environment for all economic sectors and to recognize the role of SMEs in creating jobs.

4.2.2 Concrete measures and policies

In any active strategy to stimulate job creation and economic development, the simplicity of the SME enterprise, its management structure and the flexibility of its production system, enables the SME to respond quickly to market changes. SMEs have been seedbeds of innovations; they have supplied new products and services. These enterprises usually apply and improve new technologies adapted to particular market conditions.

In Viet Nam, in order to encourage SMEs and bring into play the advantages of "small-scale" business, the Government must have a policy which creates more market opportunities and improves business skills. The main obstacles to SME growth have been identified by various surveys conducted by national and international promotion organizations. They are:

- ❖ limited access to markets;
- ❖ out-of-date technology and techniques;
- ❖ limited access to finance resources and input factors;
- ❖ poor management skills;
- ❖ limited access to information and knowledge; and
- ❖ vulnerability to the change in regulations and policy.

Representatives from government agencies, non-governmental and private organizations and organizations of labour have expressed their support for such policy. In fact, in recent years, some international projects engaged in SME promotion through different models have

received favourable reactions from entrepreneurs in the target community. Support is either financial in the form of credit or non-financial in the form of business development services.

Financial support: As the Government has no special credit programmes for these enterprises, financial support from international projects for the SME sector is very limited. Although small enterprises are the programme's target group, the survey reveals that only 1.3 per cent succeeded in accessing financial resources from international projects. There are two main reasons for this situation. First, criteria for SME definition are not clear. This allows sources of international credit to flow to what are considered in Viet Nam as large and powerful enterprises, which "take over the SME fields". SMEs become powerless and disadvantaged because of their small scale and their lack of access to collateral. The last resort for SMEs is their real estate. According to the survey data, 61.5 per cent of SMEs have to use their houses for business purposes, indicating an undeveloped property market, with negative effects on the credit market.

Non-financial support: Most small enterprise projects focused on promotion activities such as: training, information services, marketing, business consulting. These are broadly referred to as business development services (BDS).

In recent years, MSEs began to understand that credit and investment incentives cannot solve all their problems. The survey shows that 42.3 per cent of surveyed enterprises, which have fair/good/very good business performance, consider the most important factor is experience and management skill. However, only 37.8 per cent of entrepreneurs have attended business management and technical training courses (VCCI, 2001b), indicating that the Government needs to improve business-training programs for MSEs.

Similarly, access to information and consulting services is severely limited. Business owners get their business information mainly from newspapers and other businesspeople. Only 9.6 per cent of MSE owners have received advice from professional consultants, while 48.7 per cent have received advice from other business owners (VCCI, 2001b).

The concept of business development services in Viet Nam is still underdeveloped and, for a long time, was misunderstood as the provision of preferential treatments and subsidies, such as tax exemptions or reductions, price support, training and consultation fee exemption. In short, BDS is not reaching the target groups. Experience from many countries has indicated the need to develop BDS in order to provide stable support to MSEs, yet the financial supports from the Government and the public sector are focused mainly on highly qualified service providers. However, when the business environment is still not good and markets, including those for BDS, are still underdeveloped, it is necessary to subsidize a part of service fees from the Government's budget to MSEs – to improve MSE awareness and develop a network of service providers.

In order to realize the Decree on SMEs, the Government needs to formulate the mechanism and models through which governmental supports can reach the target groups. What concrete measures can make a strong impact on MSEs, especially from the view of employment patterns, also needs further study.

4.3 Policies for business start-ups

4.3.1 *The Enterprise Law*

The Enterprise Law, which took effect on 1 January 2000, is considered progressive in Viet Nam, as it states conditions for starting an enterprise. The Enterprise Law provides for the establishment, management and operation of all types of enterprise (limited liability companies, joint-stock companies, partnerships and private enterprises). It abolishes many of the requirements of previous legislation and replaces a complicated licensing system for new companies with a one-step registration system. It reverses the former framework (companies were told which activities the Government would allow them to take up) to one that newly allows companies to engage in all activities not expressly prohibited.

Concerning MSEs, this Law stipulates that the Government shall guide and create favourable conditions for HEs operating under Decree No. 66/HDBT (2 March 1992) to become formal enterprises, which are registered as businesses, operating in accordance with this Law. The establishment of HEs, also called family-run businesses by the Enterprise Law, is governed by Decree No. 02 (3 February 2000). The Enterprise Law also provides more flexibility to entrepreneurs – no minimum capital amount required (except for financial sector firms), and the minimum number of shareholders (for a limited liability and a joint-stock shareholding company) was reduced.

The Enterprise Law does not define the establishment of SOEs and cooperatives, which operate under the Law on the SOE and the Cooperative Law. FDI-funded enterprises register according to the Law on Foreign Investment. Since most MSEs are private and have started their business under the Enterprise Law, the policy assessment will be based on this law only. However, a range of other sub-law documents is still being prepared, so that it is impossible to avoid some contradictions and complications when the policy is implemented.

The Enterprise Law gives support to MSEs in business start-up and demonstrates Government's understanding of the role of MSEs, which are encouraged to invest their capital in official business. Though the Enterprise Law does not announce different treatments based on the size of a business, it creates some priority for micro and small enterprises compared to State-owned enterprises, cooperatives and FDI-funded enterprises. Micro enterprises, which are HEs, seem to have more priority than other legal structures regarding the simplicity of business registration procedure and registration fee. However, defining micro enterprise as a household business is based on qualitative criteria. Although they have business registration, HEs are not legal entities, and have no seals, no right to open branches and offices in other locations, even in one province. Therefore, it is difficult to define labour relations, as these enterprises have no right to sign labour contracts.

Thus, the Enterprise Law does not much improve conditions for changing the status of 2.1 million household businesses, temporarily classified as semi-official or semi-formal, to that of fully official or formal. It has, however, significantly decreased the steps necessary for business registration, reducing the procedure from 20 steps to 3 main steps, since 1 January 2001:

- ❖ A business owner who wants to register now fills in and submits the application form to the Business Registration Office under the Department of Planning and Investment (for

share-holding and limited liability companies, partnerships, and private companies) and under the District Economic Department (for household businesses);

- ❖ Registration offices are only required to check if the submitted application conforms to the law and have no right to request business owners to submit other documentation; and
- ❖ Registration offices are required to settle the registration within 15 days from the date of receiving the registration application, which now includes three main documents instead of eight.

Implementation of the Enterprise Law has been responded to positively by business owners and administrators. The law has made progressive moves in two critical areas. First, it allows an enterprise to register and conduct any business on its own lines that are not prohibited by law and has abolished 150 sub-licenses that previously needed to be obtained. The new business registration procedure considerably reduces time, costs and effort, as well as increases enterprise opportunity. The business registration system was centralized to one focal point and was consistently executed across the country, thus creating favourable conditions for enterprises wherever they operate. The registration fee is reasonable, clearly and consistently stipulated by a Circular of Ministry of Finance, and requiring minimal document procedure. This eliminates the earlier practice of “applying-offering”, significantly reducing expenses for enterprises that can be utilized elsewhere. Also, the Government has not suffered from budget deficits, as most of these “applying-offering” expenses went into governmental officers’ pockets and not the State budget.

Box 4.1: It takes 10 steps to buy a truck for a business

People in the Ninh Thuan Province, when buying trucks for their transportation business have had to follow these 10 steps:

- 1. Meet personally with the Chief of the Transportation Dept. to purchase an application form.*
- 2. Fill out the form.*
- 3. Request approval of the Sub- District People’s Committee.*
- 4. Request approval of the Economic Division in the town (District).*
- 5. Request approval of the Police Transportation Division of the town (District).*
- 6. Submit the application to Transportation Division’s officer for checking application.*
- 7. Approval of the application by the Director of the Transportation Division’s Director.*
- 8. Invite the Transportation Division to check the parking place.*
- 9. Checking of the parking place.*
- 10. Buy the truck.*

The story above is only one example of the many obstacles that enterprises have to deal with. And, remember, buying the truck is only one of the first steps to starting the business.

Source: VCCI.

Problems of implementation of the Enterprise Law arise mainly with governmental officers at district-level. One problem is that there are too many guidelines for the implementation of different laws, so they do not know what guideline they should follow. Outdated regulations are still in use in some places and there is a lack of inter-ministry guidance documents. Another problem is that hundreds of sub-business licenses and procedures “invented” by different governmental organizations (especially at district levels) still exist, so that enterprises are not really free to apply for business registration, despite the introduction of the Enterprise Law. Box 4.1 illustrates that the problem has not been solved yet.

The VCCI Survey (2001) shows that newly-established enterprises highly appreciate the improvement in providing information for Enterprise Law implementation, from the Government as well as supporting organizations. Nearly 50 per cent of responding enterprises reported they have received information supports from Business Registration Offices. Most information services provide instructions on business registration procedure and information on business conditions (50 per cent). Some provinces have established a special web site for information on business registration, shortening this procedure sometimes to only two days, as Box 4.2 shows with **Good Practice 1**.

Box 4.2: Good Practice 1

**Business registration through the Internet in
Ho Chi Minh City**

This scheme aims at standardizing and simplifying registration procedures, to encourage compliance with the Enterprise Law. A website initiated by the Department of Planning and Investment (DPI) in Ho Chi Minh City provides information and advisory services on procedures for business registration and opening branches. After six months of operation, the Website has received 21,124 visitors; 46 private enterprises and 17 branch offices have been registered in Ho Chi Minh City.

The website operates as follows: entrepreneurs wishing to register their business fill out their application forms on the Web. The Web-applications are sent to Ho Chi Minh DPI and feedback is returned a maximum of two days later. If the application is assumed to be accepted, an appointment is fixed by the DPI, and entrepreneurs need only one day to complete the registration procedure at the DPI office, sometimes within an hour. Should the application fail, guidance is provided to help enterprises proceed successfully with their second application for registration.

Lessons learned:
To encourage entrepreneurship, initial business procedures should always be simplified. This innovation by the DPI saves entrepreneurs time and reduces costs; the subjectivity of business registrations officers can be avoided; any other information related to starting a business can also be found through this Website.

Applying IT in managing and promoting MSEs sector is very important. A report on business registration data can be managed within a day. For MSEs, it is the first step to access e-commerce, which can improve their competitiveness.

*Note: For Good Practice 1, and other good practices presented in this report, a list of contact addresses is available in Annex 4.
Source: VCCI.*

Table 4.3 juxtaposes the average time and costs for the establishment of an enterprise before and after the enforcement of the Enterprise Law. Policy results are positive. By 31 May 2001 (one and half years after its implementation), 21,234 new small enterprises and 220,000 new HEs had been established, with a total registered capital of VND 36,000 billion. According to the MPI preliminary assessment, an average new start-up enterprise created

about 20 new jobs. In country overall, more than 420,000 new jobs have been created (without the jobs generated in HEs). In comparison, the number of new jobs generated in FDI-funded enterprises was 340,000 under the Law on Foreign Investment.

Table 4.3: Comparison of average time and cost for the establishment of an enterprise before and after the enforcement of the Enterprise Law

Items	Before the enforcement of Enterprise Law	After the enforcement of Enterprise Law
Average time taken	99 days	17 days
Average costs paid	VND 4,861,000	Nil
Average cost for business registration	VND 3,300,000	VND 550,000
Other costs	From 1 to 10 million VND	VND 2.9 million
Average number of documents required	7.4	Nil
Average number of documents required for business registration	4	3

Source: VCCI Survey, 2001.

4.3.2 Other business start-up registration procedures

Enterprises are required to follow some compulsory pre-operational administrative tasks, such as seal-making, registration of tax code and purchasing VAT invoices. Practice has shown that the time and costs of this procedure have not been reduced. The cost of seal-making varies from VND 80,000 to VND 600,000, and takes from one to 50 days.

The Enterprise Law defines the business registration regime. The registration departments (provincial and district levels) are the agencies in charge of managing data on business registration documents of all enterprises. However, based on each specified field, enterprises have to register with specific agencies. Table 4.4 shows the coverage of registrations related to MSEs.

According to Ministry of Finance regulations, enterprises have to register their tax code with local tax agencies within ten days of receipt of their business registration. As Table 4.4 shows, loopholes in coverage exist. Even accounting for the survey sample, that includes some enterprises with tax exemption, other enterprises have either avoided taxation or are not informed fully about their tax obligations. Average time for tax registration is usually 23 days (MPDF/IFC 2001). In addition to the time factor, legal status and fines can have positive effects on compliance with tax registration. The tax obligations of private companies, limited companies, and stock companies are usually defined more clearly and are heavier than taxation for household enterprises. A strict policy of fines (even for late registration) has also positively affected enterprise compliance. Tax policies need to create an equal environment for different types of enterprise and to improve administrative procedures for tax registration to encourage compliance.

Table 4.4: The coverage of business registrations (%)

Type of registration	Mandatory	Rates of Registered MSEs
Non-corporate tax	100	61.9
VAT	100	56.1
Custom duty	Companies engaging in foreign trade	7.1
Excise Tax	100	81.4
Special Tax	100	2.2
High Income Tax	100	3.2
Job Creation Fund	No	6.7
Department of Planning and Investment	Enterprises registered according to the Enterprise Law	36.2
Economic Division of District	Household enterprises	49.7
Statistics Office	No	18.3
Other agencies	No	18.9

Source: VCCI Survey, 2001.

Similarly, legal status and fining for non-compliance with mandatory registration have a positive effect on registration with the Planning and Investment Department. On the contrary, problems arise in registration with the Economic Department at district level. Their limited resources cannot provide the information enterprises need; in addition, they are always required to report to higher authorities about their local enterprises, a situation brought about by State governance on enterprises, which is problematic in the country overall, but particularly at district level.

State policy-makers claim that each government officer and agency has a responsibility to monitor all activities of each enterprise (including at district level), with “governance” by inspection, controls and reports. This “spreading oneself thin” method will surcharge the present government administrative system. It is also unsuited to present-day market dynamics. To accomplish administrative reform in procedures, the Government should look at the managing role of all departments and agencies, especially at district level. Many registered companies exist only on paper at the Department of Planning and Investment. Various experts suggest that district agencies can closely monitor local enterprise activities, particularly the MSEs. However, the question about how to conduct monitoring is still open.

4.3.3 Post registration inspection

The State’s management of business registration is the first administrative means of enterprise regulation. The State’s post-registration management role is recent and consists of inspecting the operations of private enterprises to monitor their compliance with State regulations. The frequency of inspections and related problems vary from locality to locality. The inspectors include “economic police” and fire safety inspectors from the Ministry of Interior Security, market management monitors from MOT, tax officials from MOF, and officials from the State Inspections Agency. Three surveys carried out by State Inspections Agency, VCCI and MPDF clearly show inspection overlap and saturation: from 65 per cent to 88 per cent of enterprises are inspected four to 14 times in three years. Meanwhile, 77 per cent of managers inspected did not agree with the conclusions of inspectors (VCCI Survey, 2001).

They also have no idea who will be the arbitrator of the inspectors' conclusions and the preponderance of different conclusions by different inspectorates would seem to preclude a sole arbitrator. Table 4.5 shows that MSEs are not exempt from frequent inspections.

Table 4.5: Inspection visits conducted by government officials to MSEs, 2000-2001

Number of visits	Percentage
More than 10 times	5.4
More than 5 times	6.7
More than 2 times	15.7
2 times or less	5.1
No visit	67.0
Total	100.0

Source: VCCI Survey, 2001.

Box 4.3 summarizes two newspaper articles on these myriad government inspections, a chaotic post-registration situation that springs from the policy on enterprise inspection laid down by Decree 61/CP/1998. Outmoded and bureaucratic, the Decree also fails to stipulate clearly the number of agencies with the right to inspect enterprises; the preconditions for inspection; or the responsibility of inspection agencies for incorrect conclusions, which cause material losses and stress to entrepreneurs.

Box 4.3: Business inspections in Viet Nam - Contenders for the Guinness Book of Records?

Contender No. 1: The Bac Son Tobacco Company Ltd. was inspected 28 times in three years, according to the State Inspection Agency.

Contender No. 2: The private enterprise Le Khang in Can Tho City was inspected by 28 agencies or organizations in three years (1997-1999), according to the VCCI.

Inspection agencies are: Industrial Department; provincial Cultural inspection teams (four times per year); Department of Planning and Investment; Healthcare Department (two times per year); Financial Department; Taxation Office (12 times per year); Statistical Office; Department of Labour-Invalid and Social Affairs (DOLISA); provincial Confederation of Trade Unions, Land Management Office; Construction Management Office, Provincial Police (two times per year); Market Management Monitor.

The owner revealed that after the introduction of the Enterprise Law, the number of inspection times has decreased to 10 times per year.

Sources: Newspapers *Labour* dated 13 April 2001; *Youth*, dated 22 June 2001.

The post-registration inspection as a necessary mechanism is confirmed by enterprises and State management agencies. And, while entrepreneurs assert that it will not kill the spirit of entrepreneurship, one inspection each year is enough to help the State control the activity of enterprises and should have a positive orientation of discovering problems and helping resolve them, rather than oriented negatively towards fines and uncovering illegal activities. Japan provides an example of good practice here, with governmental supports to MSEs through inspection. Japanese SMEs are voluntarily inspected; inspectors help them to diagnose the business and, to avoid undesired outcomes, resolve the problems raised to the joint satisfaction of manager and inspector.

4.3.4 Reformulating the Law on Bankruptcy

In a market economy, bankruptcy is a normal if undesirable phenomenon. Bankruptcy laws and regulations manage these situations in a publicly accountable and efficient manner, acting as a safety valve for minimizing the effects of bankruptcy, on entrepreneurs and creditors alike. In Viet Nam, in line with forming the legal framework for a market economy, the National Assembly introduced the Law on Bankruptcy on 30 December 1993 but, in practice, it is rather difficult to implement these regulations, particularly with regard to the MSEs. Seven years after implementation, only 100 enterprises had made bankruptcy applications; the number of bankruptcy announcements is much smaller. Meanwhile, it is estimated that one out of every three enterprises is either bankrupt or changes its registered legal structure. The MPI data on registered enterprises in 1998 was 37,090 units (GSO data estimated the number of existing enterprises at 26,021). The Taxation Department of Ho Chi Minh City reported 507 discharges of enterprises owners from 1999 to 2000. This remarkably small number of enterprises applying for bankruptcy may be explained by the following factors:

- Due to the limitations of the Law on Bankruptcy, enterprises often settle their debts through Civil Codes, Trade Law and other laws, or even through what translate as “violent measures”. In many cases, the act of not paying due debts is legally viewed as a violation (abuse of trust, privatization of private property and even as privatization of socialist property);
- Three groups (creditors, debtors and workers) have the right to apply to the court for enterprise bankruptcy but are disinclined to do so. (i) Creditors usually seek a way to retrieve their debts through separate negotiations with the entrepreneurs who owe them. (ii) Debtors do not want to be announced bankrupt, because of loss of reputation (public opinion does not draw a line between enterprise bankruptcy and bankrupted entrepreneurs in Viet Nam). In addition, entrepreneurs in debt usually try to save their business by whatever means at their disposal, some involving risk and some illegal. (iii) Workers in the enterprise are (too) dependent on the existence of the enterprise and do not want it to be classified as bankrupt;
- The regulations related to bankruptcy order and procedure are not clear and feasible, which disable the court from announcing bankruptcy; and
- The Law on Bankruptcy encourages entrepreneurs to remain in business rather than declaring it bankrupting, if a chance for turnaround exists.

Although there is no evidence of the negative impact of market exit by bankrupt entrepreneurs, the present law calls for reformulation to address the issue of bankruptcy in Viet Nam.

4.3.5 Observations

Several conclusions may be drawn from the above discussion on business policies, laws and SME-specific policies. First, all are important steps forward in developing the Vietnamese business environment. When a policy is designed in the right way, to encourage entrepreneurship on the basis of “It is the first step that costs” when entering the market, then its impact is very considerable. To a certain extent, enterprise legislation is still limited in the

procedures it has established for business start-up. Government's focus on the following points would address the following issues for MSEs:

- Redesigning *initial* administrative procedures including tax code registration, seal-engraving, buying VAT invoices.
- Creating a favourable infrastructure for start-ups: land-leasing procedures, building factories, accessing water and electricity resources. The Business Incubator model can expand in Viet Nam to help MSEs to solve this problem.
- Improving inspectoral process and reorienting inspectors' conclusions to a problem-solving approach, similar to the Japanese inspection model.
- Reformulating the Bankruptcy Law more in line with formulations in established market economy countries.

The Enterprise Law has not had a strong influence in moving HEs (semi-informal sector) to the status of formal registered enterprises. The keynote here is to design a development policy that encourages household entrepreneurs to become full legal entities, to participate capably in markets, to risk-take and to improve their business, in order to generate jobs (bearing in mind that jobs with job quality promote productivity).

A policy to encourage newly established enterprises should be linked with the competitiveness policy and the small enterprise promotion strategy. Such a policy strategy differs markedly from that of highly developed countries such as the United States, which has traditionally encouraged new enterprises in order to strengthen competitiveness by spurring competition among MSEs – including new entrants and existing enterprises.

In the European Union, many enterprises are created while others are going out of business at the same time. The EU countries had no special acts or measures to promote start-ups except improvement of the general business environment; ensuring low inflation, and stable exchange rates in the context of macroeconomic stabilization. A stable market condition enables entrepreneurs to predict future business, which in turn promotes start-up activities. In addition, most European governments have stressed the equal importance of newly established and existing firms. Meanwhile, protective regulations, particularly for semi-informal enterprises, have resulted in reducing their competitiveness so that existing firms tend to seek preferential treatments from such regulations.

4.4 Investment and capital mobilization

4.4.1 Credit policy and the collateral obstacle

As in many developing countries, the capital market for MSEs in Viet Nam can be divided into two basic distribution channels: formal and informal. In Annex 2, Table A2.4 outlines the financial institutions and Table A2.5 summarizes infrastructure.

The Law on Banks and other Credit Finance Organizations allows different types of financial organization to operate in Viet Nam. Currently, the system of financial organizations embraces the following: State-owned commercial banks; joint-stock banks; joint-venture banks; subsidiaries of foreign banks; people's credit funds; financial companies and financial leasing companies. Among them, the State-owned commercial banks are dominating the capital market.

Besides improving the access to credit sources mobilized by credit organizations, the Government of Viet Nam uses financial sources from Overseas Direct Aid (ODA) and its budget to set up the support funds in the frameworks of national target programmes.

To access bank credit sources, the MSEs, like other types of enterprise, are required to comply with provisions in the Law on Banks and Laws on Credit Organizations. These regulations are so clear and concrete that enterprises can identify immediately whether or not they should apply for a loan from these credit sources. In many cases, enterprises have made no attempt to borrow because they considered it impossible to approach these capital sources. However, two regulations that interested businesses must satisfy are a feasibility study and a good credit rating (confusingly, as this is impossible for first-time loan applicants). The prerequisite condition is the collateral asset. On one hand, it is hard for MSEs to have collateral asset in Viet Nam due to its undeveloped property market. On the other hand, the absence of an intermediary organization, capable of valuing the collateral asset, creates a favourable position for the banks by devaluating this asset.

Thus, the banks of Viet Nam are in a capital-stagnant situation and businesses, meanwhile, are short of capital. Ignoring the real debt-paying capability of businesses and relying on only collateral assets that were used by borrowing enterprises, in many cases as collateral assets to other financiers, meant that many banks lost thousands of billion of Viet Nam Dong.

Credit policy is based partially on a certain understanding of the role of MSEs. The establishment of the support funds of the national target programmes shows the differences in treatment in terms of business size, although this difference is unclear and sometime confused. These funds are:

- ❖ The Fund for Hunger Eradicating and Poverty Alleviating Program (HEAPAP);
- ❖ The Job Creation Fund;
- ❖ The Fund for German-Vietnamese Returnees Programme;
- ❖ The EU Small and Medium Enterprises Development Fund (SMEDF); and
- ❖ The Development Assistance Fund (DAF).

As these funds are managed and implemented by different agencies, with each agency setting its own criteria for defining an MSE, the procedures for obtaining a loan, as well as regulations for accessing these financial resources vary. According to the criteria set up by the SME Development Fund of the EU, SMEs should have a registered capital from USD 50,000 to USD 300,000 at the time of registration and have from ten to 500 workers. This Fund is released through the banks that have participation agreement with the Fund to provide credit to MSEs. Thus, loans to small enterprises from this fund are subject to different interest rates from different banks.

The German-Vietnamese Returnees Fund is released through the Viet Nam Industrial and Commercial Bank. According to this Bank's criteria, an SME is a business that has a number of employees lower than 500, value of fixed assets below VND 10 billion and working capital of up to VND 8 billion, with a monthly turnover of up to VND 20 billion.

The HEPAP policy provides credit mainly to households (poor individuals and HEs) through the Banks for the Poor. However, these loans are not usually used for starting a

business. After getting a loan, many cannot use it in the most effective way because they lack adequate business knowledge.

The road that MSEs walk towards accessing available credit sources is a hard one. There is no procedure priority for them. In order to access normal credit sources, MSEs must meet the minimum procedure stipulated by law that comprises the following steps:

1. Prepare a business plan, which usually takes the form of a feasibility study;
2. Certify that the enterprise belongs to the preferential target group (if the enterprise wants to access preferential credit);
3. Get collateral asset holders, preferably public notaries;
4. Assess the value of collateral assets;
5. Open a file of application for a loan; and
6. If successful, complete the fund release procedure.

With the HEPAP fund, the Government is undertaking the credit-supporting policy for the poor with the implementation participation of the Viet Nam Women’s Union, a socio-political organization representing the interests of Vietnamese Women. The VWU guarantees the loans to the value under VND 10 million (in the past under VND 3 million) for women entrepreneurs. The implementation of credit support programmes in this trend has created favourable conditions for women MSE owners to access credit sources (see Box 4.4, **Good Practice 2**).

Box 4.4: Good Practice 2

Trust credit for women entrepreneurs

The Viet Nam–Germany Women Enterprises Promotion Program is an example of successful programme design for creating small-scale businesses in low-income communities. Women entrepreneurs in Viet Nam often have difficulty in accessing credit because they often either do not have enough collateral, or collateral assets are registered with the husband’s name; the capability of preparing a business plan may be limited; there may be lack of a long-term business strategy; or, as MSEs, they do not have high-profit projects for consideration. Gender becomes a strongpoint, whereby the Viet Nam Women’s Union trust-guarantees a credit. Since the programme’s beginning in 1995 and up to 1999, the VWU has supported 18 women-headed households in Viet Nam, for a total amount of VND 1.8 billion (or VND 100 million/ household) loans. Since 1999, the VWU has been implementing a programme to provide credit worthiness. The procedure has become simpler and creates favourable conditions for MSEs to access finance and to operate more efficiently. However, it still entails legal responsibilities for the borrower: a certificate of ownership of collateral; guarantee of management agencies, and an inspection of the progress of payments. Credit worthiness is extended from VND 5 million to VND 10 million. The programme also organizes training courses for MSEs before giving loans, in order to help them use credit efficiently, thus reducing the risk all around.

Lessons learned:
Support activities with more flexible policies can help MSEs more easily access credit. This practice has shown that the loans made some small enterprises braver in their approach to business. The programme considers the specific sense of women in regard to their reputation, especially within their own female community. Organizing businesswomen in groups (for example, clubs or associations) will bring great benefit to women in general and business women in particular.

Note: See Annex 4, Good practice: A list of contact addresses.

Although the credit policy of the Government of Viet Nam was designed by policy-makers to focus on the MSE role, recent surveys show that limited access to financial sources is the main difficulty MSEs are confronting in their business. Four major obstacles hinder

access to credit sources. First, the policies and laws on banks and credit organizations stipulate that every loan requires collateral assets. For MSEs, the collateral asset is always the first and biggest difficulty. The results of a survey in Thua Thien-Hue show that the number of enterprises requesting loans accounted for 98 per cent of enterprises but decreased to 57.6 per cent when a collateral asset was required.¹⁶ To settle the collateral issue for MSEs, the pilot Credit Guarantee Fund for SMEs was established in the Industrial and Commercial Bank and Bac Giang Province (see **Good Practice 3**). Government Decree No. 90/2001-ND-CP provides for the establishment of the Credit Guarantee Fund for SMEs nationally. However, the steps to form this fund are being implemented cautiously due to the issue of moral hazards and unsuccessful experiences in some countries.

Box 4.5: Good Practice 3

The Credit Guarantee Fund of the Industrial and Commercial Bank of Viet Nam (ICB)

In 1993, Deutsche Ausgleichsbank (DtA) and ICB established a Credit Guarantee Fund (CGF) for the group targeted in the German-Vietnamese Returnees Program. DtA provided a grant of DM1 million as assets for the fund, which is administered by ICB independently. The fund is handled on a guideline agreed upon by both banks.

The key components and actual procedures are as follows:

Target group: All Vietnamese business starters, preferably returnees (eligibility) from Germany, who received a loan from the programme and who cannot provide sufficient collateral.

Percentage/amount: Up to 80 per cent of a maximum credit of DM 100,000, 20 per cent or more of guarantee: risk is with the bank of the borrower.

Guarantee fee: In advance 1 per cent per year on the outstanding amount of the guarantee.

Claims procedure: The CGF will only compensate the bank's credit losses on a case-by-case basis. First the bank has to claim all collaterals of the debtor. Finally, the CGF covers its portion of the credit it has guaranteed.

Multiplier: 1:3, DtA recommends 1:5. ICB handles the CGF very cautiously. Up to now the multiplier stands at around 2, which are far too low for a CGF.

Losses: Up to now 3 projects out of more than 420 guaranteed by the CGF, amounting to VND 64 million have been compensated.

Guarantee schemes tend to work best when the guarantees are given for credit-worthy clients with good projects who are unable to obtain loans because they cannot satisfy the lender's requirement for collateral. Credit guarantees are one solution for some of the credit problems of micro, small and medium enterprises, but not the solution for all problems.

Germany itself has a decentralized system of guarantee schemes which operate in self-help organizations in local institutions of private businesses, such as chambers of commerce and industries, chambers of small business associations, banks and insurance companies.

Lessons learned:

Viet Nam has no scheme of credit guarantees or guarantee banks. As a country undergoing transition and reform, it urgently needs tools to diversify the finance sector, creating better access to credit for micro, small and medium-scale enterprises. The pilot project on CGS shows the feasibility of a national scheme of credit guarantee for small enterprises.

Note: See Annex 4, Good practice: A list of contact addresses.

The second obstacle arises because efficient operations are the rule of any commercial bank or financial organization. Banks are often hesitant to supply credit to MSEs. Transaction

¹⁶ Nguyen Cuc, 2000.

costs borne by the banks on loans to MSEs are not as proportionally attractive as loans to large companies. Moreover, the MSEs are a higher risk, in bank perceptions.

Third, the balance is towards supporting SOEs and large enterprises rather than private enterprises, the majority of which are small. Credit suppliers are attracted to the SOEs, who are granted loans without collateral asset if their management body guarantees the loan. The preferential sources of credit finance for MSEs are distributed through the commercial banks, thus this credit volume is poured into a “bottomless bucket” of SOEs that work unproductively but have strong ties with bank officers and management bodies.

The fourth obstacle is the feasibility study requirement that must be fulfilled by all enterprises seeking credit. While this capability is still limited in MSEs, the BDS market is undeveloped in Viet Nam. Credit financiers rely heavily on the collateral assets requirement and this fosters the MSE attitude of ignoring the quality of the feasibility studies.

Credit financing is an area beset by corruption. There are a number of cases of abuse of legalities, of loopholes and compromises between irresponsible credit officers and debtors, causing a huge loss to the banks. Box 4.6 illustrates a case in point.

Box 4.6: Credit provided illegally to one large enterprise would suffice for the whole formal SME sector

A case of corruption (known as the Minh Phung case) involved a large private corporation and the credit officers of State-owned commercial banks who arranged for an illegal loan, aware of the corporation’s incapacity to repay the debt. The subsequent loss incurred was over VND 4,000 billion – an amount sufficient to provide VND 100 million to each of 40,000 Vietnamese MSEs. The irony of the situation is underlined by the context in which the transaction took place:

- ❖ Time of case: 1998, 10 years after renovation, in the whole of Viet Nam only 26,000 private enterprises were registered with official business licences.
- ❖ Only 58 percent of private enterprises established after 1990 had a start-up capital exceeding VND 100 million.
- ❖ Only 6 per cent of enterprises received loans from banks for start-up investment.
- ❖ At the same time this loan was approved, any loan from the HEPAP fund of more than VND 3 million (or 0.00000075 of the Ming Phung Corporation’s loan) required collateral assets.

Information on credit sources and MSE access is scarce. Two-thirds of entrepreneurs who would like to apply for a long-term loan are discouraged from applying because they think they would not get it (MPDF, 1999a) and are hesitant of complicated procedures and the bureaucracy, which is rampant in banks in Viet Nam. Banks and other credit organizations are neither encouraged nor required to provide credit to MSEs and do not try to attract MSE borrowers. Recently, bankers have become more aware of the potential of MSEs and some banks are beginning to build up specific credit programmes for this sector.¹⁷

¹⁷ VIETCOMBANK, the biggest commercial bank in Viet Nam, announced a fund of VND 500 billion for SMEs in November 2001.

In any case, loans from formal sources are not very attractive to MSEs because of the costs, procedures and tight regulations of credit policy. Costs can include:

- ❖ opportunity fee;
- ❖ public notary costs for collateral assets;
- ❖ collateral assets are usually assessed by the banks at lower than market value, so that most MSEs may have to search for other credit sources and pay more for these additional procedures. If they lose their repayment ability, the value of the collateral assets will be further devalued, causing more troubles for MSEs;
- ❖ the costs of credit brokering, which is normally borne by the enterprises and not the banks (although in principle the MSEs are clients who bring benefit to banks);
- ❖ fees for consultancy services required to prepare the feasibility study;
- ❖ commissions for the officers of credit organizations when they inspect the business situation of enterprises and when they control the progress of debt-repaying; and
- ❖ intangible costs of time, work, and mental stress on entrepreneurs due to the attitude of credit officers.

Despite stated monthly interest rates of 0.8-1.0 per cent, unofficial costs are much higher than the repayment capability of MSEs. Thus, MSEs narrow their activities on their own capital. Funding from family and friends seems to be the most popular and easiest way to access credit, as Table 4.6 shows. It also shows why MSEs are negative in their attitude to accessing bank finance and amply illustrates the limitation of credit policies for MSE development.

Table 4.6: Credit demand and ability to access financial resource (%)

Financial resources	Rate of enterprises who try to access finance	Rate of successful access
General financial sources	54.5	n.a.
From: State and private banks	24.7	20.2
Government credit funds	8.7	7.1
International projects	1.9	1.3
Family, friends	38.8	38.5
High interest lenders	11.2	10.6
Others	2.6	1.9

Source: VCCI Survey, 2001.

While it may seem that micro enterprises have better access to credits under the HEPAP, the lenders in this programme are mostly poor households, but not HEs. The presence of the Job Creation Fund (JCF) is very lightly felt: only 6.7 per cent of enterprises have contact with the JCF and these enterprises report information, time, cost and report requirements are negative-effect factors. As reported, two-thirds of fund capital is delivered to rural areas, mainly for farming and handicraft production activities and women are the target focus of the programme (World Bank, 2001). VCCI's Survey results are not as expected. The rate of women entrepreneurs registered in the Job Creation Fund (7.4 per cent) was similar to that of male-owned enterprises (6.4 per cent). The rate of rural MSEs registered with the fund is only 1.7 per cent of eligible rural enterprises, while this rate in urban areas is 9.7 per cent.

According to previous surveys, among the non-farm production enterprises in rural areas (including large, medium and cooperative enterprises, and MSEs) which received credit from the Credit Employment Fund (23.2 per cent of them), only 37.9 per cent of them considered this support important. The HEs have a better evaluation of the service (57.9 per cent), but only 11.8 per cent of the total number of HEs received support. Previous surveys also show that strengthening the MSE promotion policy is imperative (MARD, 1998).

4.4.2 Many investment incentives, but not for MSEs

The Law on Encouraging Domestic Investment (Law on EDI) was introduced on 22 June 1994 and was amended on 20 May 1998. The new Law on EDI has been in effect since 1 January 1999.

The Law on EDI gives incentives to enterprises for investment in both business start-up or business-expanding activities in approved sectors. The Law on EDI also encourages investment that creates domestic jobs for locals. A wide range of incentives has been set up for enterprises that satisfy eligibility conditions, among them incentives on providing credit and supporting credit interest from the Development Assistance Fund (DAF).

The Development Assistance Fund (DAF) was established to give loans to the incentive's beneficiaries, identified according to the Law on EDI as stipulated in Decree 51 CP/1999/ND-CP. The Government has also established a number of sub-funds within DAF to support the law's target group, such as the Export Supporting Fund and the Science and Technology Supporting Fund.

In practice, many small enterprises claim they did not get the incentives, particularly preferential credit, which they are entitled to receive. One reason is that the Decree 43/1999/ND-CP on investment credit of the DAF narrowed the target group, and only some industries are given preferential credit. Domestic investors cited obtaining DAF credit as the most attractive incentive for them, once again proving the need for the issue of credit access to be tackled further.

Many MSEs are not fully informed on the Law of EDI. Only 58 per cent of enterprises (formal sector) were aware of this Law. However, very few enterprises have actually applied for this incentive – only 18 out of 292 surveyed enterprises. Three of these 18 enterprises actually received the *Investment Incentive Certificate* (MPDF, 2001). Applicants who did pursue incentives reported the following difficulties:

- ❖ The definition of “newly established enterprises” is unclear, and some applicants who transformed HEs into a registered company were denied benefits.
- ❖ The law on EDI requires an *Investment Incentive Certificate* from the People's Committee, but tax authorities also demand that this document be certified by the Tax Office, requiring invoices and special forms.
- ❖ At present, tax authorities exercise tremendous discretion in awarding incentives. Again, entrepreneurs recommended that, once a new business is registered, these tax incentives be automatically granted.

The above statements show that willingness on the part of entrepreneurs to move from semi-formal HEs to formal enterprises is not always encouraged by the authorities. If the implementing agency is aware of their responsibility and supportive of enterprise

development, this willingness can transform into investment reality, as Box 4.7 illustrates, with **Good Practice 4**.

The Law on EDI allows preferential investment to projects that “create many jobs”, but provides no concrete criteria on how many. This may be why only a few companies have applied for incentives at the start-up stage. With the small number of employees at start-up, MSEs consider they will not meet criteria and that it is too early to seek incentives.

Box 4.7: Good Practice 4

Implementation of Law on Encouraging Domestic Investment in An Giang Province

An Giang Province is not distinguished by its potential for socio-economic development but it does stand out for its implementation of the Law on Domestic Investment Encouragement. So far, this province has encouraged investment in 293 projects, attracted 20,000 employees and mobilized VND 264 billion for projects. Of these, 77 per cent are proposed by the private sector and 12 projects are from cooperatives and household businesses, which often are not considered for eligibility in many other provinces.

The An Giang authority has been taking the following measures to implement the Law on EDI:

1. Unity and synchronous coordination between the implementing agencies concerned, i.e. the Planning and Implementation Department, the Finance Department, the Tax Department and the Development Support Fund.
2. Propagation and dissemination of the Law on EDI through local enterprise clubs and mass media.
3. Clearly assigning the responsibilities of the officers who directly implement the Law.
4. Flexible application in order to avoid unreasonable regulations of the Law, thereby reducing complicated administrative procedures. Instead of “passing two doors” (as stipulated by Law Guidance), An Giang Province helps the MSEs to “pass only one door” to receive the Investment Encouragement Certificate.

An Giang is a clear example of good practice in creative and serious implementation of enterprise- support policies.

Lessons learned:

1. The first task in implementing enterprise-support policies is to unite the activities of the State agencies carrying out the law.
2. Dissemination of information plays a very important role in implementing policies.
3. The process of implementing policies is directly connected to the officers who are personally carrying out the policies. Their benefits and responsibilities should be clearly defined.
4. Flexibility and creativeness is necessary to implement policies.

Note: See Annex 4, Good practice: A list of contact addresses.

4.4.3 Observations

Credit policy in Viet Nam aims for improvement of the credit market but has not met the credit demands of MSEs: it is the large enterprises which have access to and benefit mainly from credit. Some HEs are accessing small sources of credit (mainly from the HEPAP), but basic problems of access to credit to improve their production capacity remain unaddressed by current policy.

Some solutions that are based on international experience were investigated by researchers during the trial period in Viet Nam but these should be rapidly put into practice:

- ❖ Establish the Credit Guarantee Fund. Research on the Credit Guarantee System in SMEs in 1997 showed that 85 countries worldwide have this system in place.

- ❖ Set up strategic links between credit providers and non-financial service providers in order to improve the capacity of credit officers and enterprise owners to reduce loan risks.
- ❖ Policies on encouraging investment need to devise MSE-friendly criteria. Planning designers need to incorporate two aspects in particular: i) innovation in administrative procedures and ii) training services to develop business responses in credit officers and government officers.

4.5 Taxation policy

4.5.1 “Tax-paying is extremely complicated”¹⁸

The tax system has been applied in Viet Nam since the end of the 1980s, when the first import and export tax scheme was established (issued 11 January 1988); consumption and income taxes have been enforced from 1990. During the transition to a market economy, the Government has built a tax system aimed at overcoming the situation of over-budget expenditure. Since 1 January 1999, turnover tax was replaced by value-added tax (VAT) and profit tax was replaced by corporate income tax.

The tax system of Viet Nam is generally perceived as complicated, with many priorities in tax, tax exemptions and varying tax rates. Changes often evolve in the tax system and tax ratio, so taxpayers and officers are often confused by too many variations. Moreover, many of these changes in the tax system are not appropriately advance-planned, so unforeseen difficulties arise in their implementation. For example, many materials and crop suppliers have no VAT invoices (especially in agriculture and aquatic products), and problems result for those wishing to buy these goods.

The base for tax calculation is unclear and too often modified. As Box 4.8 shows, large discrepancies exist among districts within a province or among industries.

Box 4.8: National basis for tax calculation varies from district to district

Decision No. 9790/QD/CT-NV dated 1 November 1999, issued by the Hanoi tax authorities, stipulated that HEs without a full accounting system must pay VAT by the direct method and corporate income tax by piece-work, based on turnover or income before tax. According to this decision, the income before tax or rate of value-added, which serves as the basis for tax calculation, now differs not only from district to district in Hanoi but also throughout 41 different branches.

Tax policies in Viet Nam do not give preference to MSEs, though many SOEs and formal private enterprises claim that HEs are treated preferentially thanks to the piece-work method of tax payment. In reality, this method is applied because of the poor bookkeeping system at HEs. The system of tax collection focuses mainly on large enterprises, FDI-funded companies and import and export companies whose books are kept regularly and clearly. The bookkeeping system applied in HEs is one of their major obstacles to access the tax incentives granted by various national programmes. However, this irregular system was sanctioned by the Ministry of Finance (MOF) and cannot be considered as unofficial.

¹⁸ Title of article in weekly newspaper, *Thoi bao Kinh te Sai Gon*, 25 October 2001

Only very poor HEs and individuals have received tax exemption. Excise tax is an example of slightly different treatment by enterprise size, but the basis for calculating taxes is too close to afford real incentives. Excise tax has six levels. The highest is VND 850,000 applied to HEs with a monthly income of VND 1,250,000. The lowest level is VND 25,000 applied to HEs with a monthly income over VND 150,000 (less than the minimum salary level of a worker employed in an enterprise). It seems that the basis for calculating the excise tax is *not* based on the *income of the enterprise*, but on the minimum income of an enterprise worker. Ironically, this income level of VND 150,000 is equivalent to the standard of poverty in urban areas! It is also 20 times less than the minimum level of taxable high personal income in Viet Nam (VND 3,000,000).

Every MSE understands that obeying the tax regulations is its responsibility. It is difficult for MSEs to avoid the taxes, but it is also not easy for them to access benefits and incentives. In addition, they are given very low priority, especially when it comes to being tax-refunded by the State.

Due to the lack of clarity of regulations on tax levels of the same products or product group, taxation often depends on a subjective evaluation by tax officers. This nurtures corruption and conspiracy between tax officer and tax payer and provokes large losses to the State budget. And, since no authority or body is cast as final arbiter, enterprises must “suffer patiently”. This can take a lot of time. Box 4.8 highlights an example of a four-month dispute over tax regulations on import tariffs, caused by an interdepartmental lack of coordination, coherence and clarity in government policy and implementation.

The MPDF survey shows that for Vietnamese MSEs, taxation is a highly sensitive issue, especially when entrepreneurs are asked about their expenditures. Only about 25 per cent of them are open to this question; 87 per cent of this group of respondents said they paid no unofficial costs (MPDF, 2001).

Box 4.9: A pump is a pump ... is a pump!

The 13th of May Company imported 25 pumps, designated as being the cooling component of Water Machine VND 26-1. These specialized pumps “cannot operate without Water Machines with a capacity over 30 CV”, according to the Explanatory Notes in the Table of Import Tariffs stipulated by the MOF. Thus, these products may be given a product code rating that applies 0 per cent tariff. This was confirmed by the standards control agency, Sulicontrol. However, custom officers have ignored this confirmation and defined these specialized components as normal pumps, giving them a product code rating that applies a 30 per cent tariff. Obviously, for custom officers, “a pump is a pump and not a cooling component” despite the evidence presented to the contrary by the unfortunate 13th of May Company.

Source: Article in *Business Forum* newspaper, 30 April 2001.

4.5.2 High taxation and hidden costs

Due to the complexity and ever-fluctuating system of taxation, information on tax policy is not available in time for enterprises to adjust previous decisions or react according to the new rules. Some changes in tax policy have been so rapid that enterprises simply could not “catch up with the modifications” in time to readjust contracts that had already been signed. Entrepreneurs report that they comprehend tax policy in general, but their understanding of tax details is limited and they depend passively on tax officers. Recently, some efforts have been made by business organizations to publicize new tax policy, especially with VAT and

corporate income tax. Another step in the right direction was the establishment of the Information Centre on Taxes at the end of 2001, one attempt to improve this lack of clarity and comprehension.

Due to different ways of tax calculation in semi-formal HEs and formal MSEs (depending on the bookkeeping system) the costs and incentives of compliance with tax regulations are not uniform. This explains why many MSEs change their legal structure when they see the tax benefits of a new status but, simply said, this is the “old wine, new bottle” situation.

Over and above the direct tax costs enterprises are responsible to pay, a number of indirect and intangible costs must also be paid or taken into account:

- ❖ unofficial allowances to tax officers;
- ❖ long waiting periods for VAT refunds;
- ❖ delay on issuing certificates on taxation incentives; and
- ❖ sudden changes in tax policy (especially import and export) causing unforeseen loss of a previously signed contract.

What are termed “shadow costs” also exist, which simplify the administrative procedures for MSEs but are also a cost burden. Even when exempted from tax, MSEs must still contribute “fees” to their local authority or police officers, in the form of cash, gifts, or compulsory “charity”.

The high cost of compliance with tax regulations encourages tax avoidance and evasion, a popular phenomenon in Viet Nam. No data exist, but the Government is seriously concerned and their strategy of continuous reform of the tax system is oriented towards nurturing taxation sources. Tax exemption and reduction are major forms of incentives granted to enterprises by development programmes. Tax-preferential treatment is particularly given to enterprises identified as creating jobs for, or employing, significant numbers of women. However, due to unclear legal guidelines of implementation, cumbersome procedures and unrealistic criteria, these development policies have limited impact on MSE employment patterns. For example, tax incentives are granted to start-up enterprises with “many” employees. But how are MSEs, with their lack of capital, technology, market, and management skills, able to employ “many” workers at start-up? Bear in mind that the number of manufacturing private enterprises with more than 100 employees presently accounts for less than 3 per cent of the sector (MPDF, 1999c).

The tax policy affects employment matters through using tax revenues from the State budget for job creation and human development programmes. The emphasis is on collection; tax policy has not nurtured tax-generating sources and has not created favourable conditions for MSEs to reinvest and increase their production capacity. Between 1991 and 1997, for example, the tax volume collected from private enterprises increased 4.5 times, an average increase of about 40-50 per cent per year, meanwhile GDP in the MSE sector increased about 15-20 per cent per year. Trying to collect as much as possible corporate income tax, the tax collectors limit the value of production inputs, which include salary – one of the reasons why MSEs do not “dare” to pay high salary to their workers.

4.5.3 Observations

In the past ten years, the tax policy has been improved and overhauled, but the system of calculating, collecting and applying taxes has become more cumbersome in the process. Tax duties have become singularly heavy burdens on the shoulders of enterprises, particularly MSEs, with regard to both tax payment and administrative procedure. Tax reduction and exemption are tax incentives provided by the Government to enterprises, but the MSEs rarely get them and just as rarely receive preferential treatment on duties. The enforcement of the Tax Law and other regulations concerning tax requires reform, in order to stop impacting negatively on job quality. Viet Nam should set up a simple bookkeeping system that facilitates MSE and HE access to preferential tax treatment.

4.6 Labour policy

4.6.1 Is the Labour Code applied to micro enterprises?

The Labour Code and other decrees on implementation of this law have set up a managing framework for the labour force market. Stipulations in the Law focus on protecting the interests of employees, however mainly those in SOEs and FDI-funded enterprises.

The most important Labour Code regulations concern the labour contract, control of labour contract termination, income policy and employment services and apply to all types of legal structure of enterprises. Some articles of the Labour Code are compulsory for – and only applicable to – those business units with more than 10 employees. This means that a range of labour relationship issues in micro-enterprises with less than 10 workers are not treated in the Code. Unclear and confused stipulations cause hindrances for enhancing healthy labour relations in the MSEs, as the following examples show:

- ❖ The Labour Code requires a *collective labour agreement* as the result of voluntary bargaining between the employer and the trade union representing the collective of employees on working conditions, the use of labour, and rights and responsibilities. However, according to Decree No. 196/CP issued on 31 December 1994, the signing of the *collective labour agreement* is compulsory only for enterprises with more than 10 employees.
- ❖ *Setting up and promulgating working regulation* is a responsibility of every employer. According to the provisions of the Labour Code, the employer is required, before releasing working regulations, to consult the Executive Board of the enterprise trade union and to register the working regulation at the Department of Labour, Invalid and Social Affairs (DOLISA). The law stipulates that enterprises with more than 10 employees must have this working regulation in writing (article 82, clause 1), but neither written working regulations nor DOLISA registration is compulsory for enterprises with less than 10 employees.
- ❖ Similarly, the vagueness of the regulations on establishing an *Enterprise Reconcile Council* within each enterprise has led to most (74.8 per cent) enterprises surveyed not currently having an Enterprise Reconcile Council and no official body is responsible for settling labour dispute in these enterprises.

- ❖ The Labour Code and the Charter of the Viet Nam Trade Union implies that all MSEs with more than 5 workers establish an enterprise trade union, while the majority of the sub-law regulations recommend an enterprise trade union only for those enterprises with more than 10 employees. Only 10.0 per cent of MSEs have an enterprise trade union or are the members of union organizations at any level (VCCI Survey, 2001).

The Labour Code gives guidance on income policy, which is applicable mainly to State organizations, including SOEs. Based on the Labour Code, the MOLISA will give instructions on wages and salary system of enterprises of every economic sector, including private ones. MOLISA's intervention is aimed at controlling the salary level of the non-State enterprises to ensure that private enterprises do not reduce corporate income tax through raising salaries. This appears an unreasonable method of control, since many other factors influence the income of an enterprise. In principle, non-State enterprises have a full right to set up any salary level which is higher than the minimum level (as stipulated by the Labour Code). Those enterprises with FDI-funding provide salaries three or four times higher than that of domestic enterprises, thus increasing the attractiveness of this sector, causing brain drain to large enterprises, and discouraging skilled workers from remaining in private MSEs. Most of the surveyed MSEs from the non-State sector pay workers twice the minimum salary stipulated for the State sector (VND 210,000). Only a few of them intend to reduce workers' salaries in the near future. Up to 34.9 per cent of respondents wish to increase their number of workers over the next two years. The VCCI Survey (2001) shows that labour costs and labour regulations are not factors that have a positive influence on MSE entrepreneurs' decisions on their number of workers.

Implementation of the Labour Code is beset with difficulties because of a lack of information on the number of workers and enterprise size. The Labour Code has only a very moderate impact on the development of the labour market in Viet Nam and on improving job quality and working conditions, as Table 4.7 shows (MOLISA, 2000). The figures in this table sound a warning note that many provisions in the Code have not been carried out in MSEs due to various reasons, one being the misunderstanding of MSE entrepreneurs that the Labour Code does not include them.

4.6.2 Mainstreaming gender issues: Theory or practice?

Chapter X of the Labour Code is considered progressive for its focus on special stipulations for female employees. This chapter raises the issues related to gender and prescribes various responsibilities on the part of employers for creating favourable conditions for these workers. As mentioned earlier, tax incentives are granted to enterprises employing "many" female workers. Nonetheless, although all employees in MSEs may be women, the quantitative criteria of the Government's "many" cannot be reached in MSEs. Regrettably, MSEs are *not* the target group of this preferential policy. It is also regrettable that after six years of enforcement of the Labour Code, among 3.75 per cent of enterprises registered as using "many" women workers, no enterprise has yet received a tax incentive.

For women – and men – a policy line of "more jobs per enterprise" as a goal, and "more enterprises and more jobs" is preferable to the goal of "many" jobs in a limited number of enterprises.

Table 4.7: Implementational coverage of the Labour Code, Viet Nam, 2000 (%)

No.	Surveyed criteria	Micro Enterprises	Small Enterprises	Large Enterprises
1	Employers who understand Labour Code well	2.1	11.2	39 – 60
2	Employers who do not know Labour Code	17.78	5.1	n.a.
3	Enterprises that introduce labour regulations to employees	30.77	69.39	n.a.
4	Enterprises with (signed) verbal agreement with employees (contract term less than three months)	84.00	55.00	n.a.
5	Employees trained to improve their knowledge and skills	11.19	24.49	66.67
6	Enterprises that have a reserve fund for their jobless	0.06	21.42	36.70
7	Enterprises that sign collective labour agreement	17.35	n.a.	42.0
8	Enterprises that have working regulations	37.76	81.63	n.a.
9	Enterprises that register their working regulations	6.29	27.55	n.a.
10	Enterprises with an enterprise trade union	3.5	34.69	96.97

n.a.: not available

Source: MOLISA Survey, 2000 (Annex A.14).

4.6.3 National Job Creation Programme

In Viet Nam, job-creation policy is implemented through the National Job Creation Programme (NJCP). In this framework, incentives and supports are given to enterprises that create “many” jobs, as discussed earlier. A system of the Employment Service Centres and Vocational Training Centres has been established and developed to support MSEs. The Programme’s target group can also access financial support from the Jobs Creation Fund.

The NJCP has had a considerable impact on job generation. Its total budget since its formation in 1992 has reached over VND 1,600 billion, of which VND 1,400 billion VND is from the national budget. The outstanding credit of the Fund in the past five years was VND 3,000 billion, creating jobs for 1.8 million employees (of whom 800,000 have a new job and 1,000,000 have another job). Thus, this supportive credit has leveraged an investment of VND 6,000 billion in all. The operation of Employment Service Centres has also had significant effects. Consulting services and training have been provided to 2 million people, vocational training for 0.7 million, and job-matching for 0.9 million.

Although the NJCP has had good results, its principle seems to be to create many jobs in a few firms, rather than creating many MSEs. In the implementation of the Law on Encouraging Domestic Investment (EDI) the same tendency is apparent.

4.6.4 Professional training for skilled workers

The high-skills workers development policy has a strong impact on job quality. In MSEs, the average income of high-skills workers is 1.5 times higher than for other workers. Enterprises usually face a lack of high-skills workers. Due to an undeveloped labour market, the popular method of recruitment is through friends and relatives recommendation

(according to 53.8 per cent of enterprises surveyed). Consequently, the skills levels of workers so recruited are not always matched to enterprise requirements.

Customarily, enterprises improved worker skills by on-the-job training (in 73.1 per cent of MSEs), while 18.6 per cent of MSEs sent workers for outside training. These figures reflect the perception of inadequate outside training. Most (71.8 per cent) enterprises with organized on-the-job training cited their improved business performance, which was cited far less by enterprises whose workers were externally trained (VCCI Survey, 2001).

According to the results of the Employment Preliminary Survey conducted by MOLISA and the General Department of Vocational Training, in 2000, trained workers in Viet Nam represent only 1.65 per cent and certificated technical workers only 1.7 per cent of the total labour force. Forecasts by experts indicate that the scope and quality of the vocational schools system cannot satisfy the country's social-economic development demands. On the heels of the MOLISA results, in order to achieve social-economic basic targets up to 2005, the goal in Viet Nam is to push the trained workers rate up to 30 per cent and vocational trained workers to 20 per cent of the total workforce. This is a challenging target for Viet Nam in the light of its limited financial conditions regarding the demand, quantity and professional levels of teachers. Rapid technological advances also mean that outdated hardware and teaching equipment is becoming more and more unsuited to current working conditions in enterprises. In these circumstances, the development of structured on-the-job training (OJT) is very relevant. Australia, Brazil, Japan and Singapore have successfully introduced the OJT system and, according to their experiences, the establishment of a training fund, which may be generated through a form of enterprise tax, has proven to be very valuable. The experiences of these countries should be studied and applied in practice in Viet Nam, as a structural part of the policy of resources development of the nation, as well as of enterprises.

4.6.5 Observations

Despite the lack of clarity and cohesion in the design of the Labour Code, opportunities for job creation in MSEs have materialized, although the quality of these jobs remains in question. There is, therefore, a need to revise and improve the Labour Code in the interests of MSEs and their workers. It is clear, however, that for newly established enterprises, the "many jobs" criterion is difficult to achieve. Thus, the NJCP should not only choose the "more jobs per enterprise" goal but also set up the policy line of "more enterprises and more jobs". One advantage in small enterprises is their significantly lower costs for job-creating, so that investment by the State in the National Job Creating Programme, through development of the MSEs, will bring a larger and more desirable long-term effect.

The training of skilled workers is an urgent issue for MSEs in the current market situation. The issue of competitive advantages in human resources has been largely neglected in Viet Nam policy. It is imperative to find a suitable training model to fill the gap in highly skilled human resources.

4.7 Trade policy

4.7.1 Policy on trade liberalization and export promotion

Trade liberalization and FDI policy are the decisive factors of renovation, contributing greatly to the high growth rate of the Vietnamese economy. A number of reforms in trade

policy have improved the competitiveness of domestic goods, together with the introduction of the Law on FDI in 1987, its amendments in 1990, 1992, 1996 and 2000, and the unification of the exchange rate system. Alongside the changing of consumer habits, this has had the effect of increasing the circulation of the domestic goods.

Progress has been made in the awareness of the important role of MSEs for the economic development of the country. Until 1998, enterprises wishing to engage in export-import activities were required to have a legal capital above US\$ 200,000 and executive professionals with relevant import-export knowledge. These regulations were annulled and this has mobilized potential MSE sources and pushed up trade development, both domestic and international. Nonetheless, trade policymakers still lack a thorough understanding of the role of MSEs, as the tilted balance of preferential treatment to large SOEs shows. The latter often receive subsidies and credit from different funds, whose sources are founded on the tax and contribution of *every* enterprise, large or small, SOE or private. The same situation is observed in the Export Reward Scheme, which grants prizes only for those enterprises with an export turnover higher than US\$ 100,000, who launch a new product or create a new market, outperforming domestic competitors. The MSEs rarely achieve this turnover because of their limited capital and capacity.

Although allowed to engage in import-export activities, their small size constrains MSEs. Allocation of export quotas is based on direct provision to some enterprises or through bidding (around 25-30 per cent of export quotas). MSEs can participate in the bidding but have no chance of winning the bid if there is no capacity-building support provided to them prior to the tendering process.

Liberalizing trade is occurring step by step. Viet Nam's trade policy still provides a high rate of protection to domestic goods through high tariffs on imported products, as well as a tight control on smuggling. The lessons on trade policy from other countries show that MSEs do not always benefit from high rates of protection. Because MSEs can produce only inferior consumer goods or highly specialized handicrafts, high tariffs on import-competing type of consumers goods produced mostly by large domestic enterprises often generate a high cost for production input of MSEs. As a result, the rewards of high rates of protection turn out to bias the MSE vis-à-vis the large firms (ILO/SAAT, 1996).

Behind the current trade policy are the hidden costs borne by the MSEs, such as the so-called "smoothing over" allowance, commission fees and the raised price of materials and equipment because they have to import through large companies. Thus, the production costs in MSEs are getting higher, resulting in a flow of low-priced contraband imported goods onto the domestic market (smugglers pay no import tax). Although the Government cancelled the policy on "village trade blocks", the checkpoints established on the main carriage roads pose a problem for small enterprises as the next checkpoint does not recognize the inspection results of the previous ones. Numerous control-and-inspect teams from various agencies and different boards (for instance the Market Management Board, the Transportation Means Inspection Agency, the respective provincial Mobile Inspection Teams, and so on) are repeating the same function: inspecting circulating goods and placing a burden on MSE shoulders with a variety of costs that include money and time costs, reputation and stress, as Box 4.9 illustrates.

Box 4.10: The household entrepreneur and the village blockade

Madam Hoang Anh described the “accident” that befell her household enterprise on 4 April 2000. In brief, her truck of ready-made clothes worth VND 80 million was impounded by the Cai Lay District police while she was driving through their district. The reason stated by the police was the “foreign” labels on some of these clothes, despite the sales invoice that accompanied them stated the clothes were legally issued within Viet Nam.

As this question of issue also plagues high-ranking government officials, the behaviour of the Cai Lay district authority and tax officials is more understandable. Unable to resolve the situation, they have already sold the good they held, with no protocol for so doing. Madam Hoang Anh is applying to the courts because she believes that the legislative State will protect the legal interests of its citizen.

Source: Article in Business Forum newspaper, 21 April 2001.

The Commercial Law ensures that all businesses have business licenses and are allowed to directly import and export without import-export license. By 30 November 1997, only 1,630 of 32,000 enterprises had been allowed to take part in import-export activities. The majority were State-owned. Thanks to the enforcement of the Commerce Law, as of February 2001, there are 14,202 enterprises in Viet Nam engaging in international trade, of which 69 per cent are non-State enterprises (Liesbet Steer, 2001).

The increase in private sector exporting has created a great volume of jobs, especially in the MSEs or in the handicraft clusters in the industrial villages. The export turnover for handicrafts was US\$ 250 million in 1999 and US\$ 310 million in 2000. This impressive acceleration may suggest a policy of boosting employment through a special programme for MSEs on the development of industrial villages in Viet Nam.

4.7.2 Market development

Considerable changes in awareness have occurred in MSE owners about what are decisive factors for enterprise development. In the early years of innovation, from 1992 to 1997, production capital was the main factor in MSE business development (MOLISA, 1993) but recently the market is considered as factor which has positive effect to enterprise decisions, especially decisions related to employment quantity and quality. Table 4.8 presents the results of the VCCI Survey regarding business decisions and why they were taken by MSE entrepreneurs.

In fact, enterprises that highly appreciate the market factor have considerably increased sales. Among these enterprises, 40.9 per cent emphasized market factor, 25 per cent stressed capital, and the remainder emphasized other factors. Here it is important to note that the MSEs with increased sales also have improved in the quality of jobs they offer. For example, 71.2 per cent of these enterprises increased workers' salary, while only 58.8 per cent of enterprises with unchanged sales figures did so. Similarly, in ensuring safe working conditions, 66.7 per cent of the first group had implemented improvements, while only 50.5 per cent of the second group had done so.

Table 4.8: Factors influencing MSE decisions on their number of workers and working conditions (responses as a %)

Factors influencing MSE decisions		On number of workers		On working conditions	
		<i>Strong Positive</i>	<i>Positive</i>	<i>Strong Positive</i>	<i>Positive</i>
1	Markets	56,7	29,2	40,7	32,1
2	Business premises	10,3	10,3	15,4	40,7
4	Labour costs	7,7	18,3	8,3	15,4
3	Access to finance	4,5	22,1	3,2	17,6
5	Labour regulations	0,6	6,4	4,2	23,1
6	Access to resources	4,5	13,5	4,5	17,9
7	Export	1,6	3,8	2,2	2,6
8	Tax	2,2	11,9	2,2	12,2
9	Government policies	1,0	11,2	1,9	11,5

Source: VCCI Survey, 2001.

The domestic market

As trade policies in recent years focused on market development for large and State-owned-enterprises, the market question becomes vital for MSEs. Vietnamese trade policies focused on encouraging exports, while only 10.6 per cent of surveyed MSEs export their products. Only 5.1 per cent of surveyed MSEs stated that the international market is their most important one.

For most MSEs, the domestic market (including local and national markets) is their only market. As their small scale disadvantages them to foreign markets, it is indispensable that MSEs focus on domestic markets. However, macro-economic policy shows few signs of encompassing domestic market issues and, from a micro-economic perspective, the MSEs do not have favourable conditions to access the domestic market. So far, policies for developing the domestic market have centred on administrative measures to prevent smuggling and trade cheating. With a population of almost 80 million, the domestic market can be reorganized to motivate domestic development. In addition to the consumer market, which remains unpotenzialized, there is also the industrial market.

Industrial subcontracting market

The trade policy of Viet Nam does not reflect support or encouragement for popularizing those types of commercial activity most appropriate to MSEs (franchising, subcontracting, selling agents). While referred to in the Commercial Law, these stipulations have stopped short of developing concepts or expounding on these types of activity. Experiences across countries show that to support the Commercial Law, specific regulations and legal frameworks by type of commercial activity need to be formulated. These need to include stipulations guaranteeing the implementation of subcontracting contracts in terms of price, quality and delivery time. This is one of the reasons triggering the underdevelopment of the industrial market in Viet Nam.

The meaning of industrial market to MSE development is recognized and developed in many other countries worldwide. Japan is a lively example of developing industrial subcontracting relations in order to create good jobs. About three-quarters of SMEs in Japan are subcontractors for large companies, especially in machinery, textiles, and the metal industry.

According to experiences from Indonesia, the subsidy incentives to large enterprises did not bring the expected results for MSEs. Currently only 5 per cent of 33 million MSEs are considered as modern, but every year 2 million workers enter the labour market. In contrast, the MSE-supporting measures for market and technology through an industrial subcontracting system (for example, the community-service fund ASTRA-Foundation) have brought encouraging results.

Direct government intervention to ensure markets for MSEs

Direct government intervention to market is a method used in many countries to ensure a stable consumer market for MSEs. Governments in these countries often create favourable conditions for MSEs to access government procurement or support MSEs in order to improve their bidding capacity and ability. In Korea, for example, about 9,000 enterprises sign contracts with government annually. In Viet Nam these bids go to State-owned or large enterprises.

Experience in Korea shows that government direct intervention to ensure market for MSEs bring poor results if the *procurement procedure* is not appropriate. Programmes that delivered contracts or quota directly to enterprises were found not only to limit their competitiveness but also to cause ethical problems (moral hazard, etc). Enterprises will not be encouraged to reduce their price and improve their product's quality. Building a partnership model between government and enterprises to ensure a healthy market for MSEs should be a priority issue in Viet Nam.

Export promotion incentives for MSEs

Indeed, promoting export for MSEs is not the same in multiple countries. Of most relevance to Viet Nam are the export promotion strategies used by non-Chinese Indonesian MSEs and by Colombian MSEs, neither of which had pre-existing networks into which they could fit, nor experience in foreign markets to build upon. These firms used a mix of collective and direct selling approaches, such as collective marketing with leading enterprises. The value of enterprises participation in trade fairs at home and abroad is very high. The introduction of buyers by promotion agencies had a very limited usefulness to all groups of MSEs (MPDF, 1999c). Box 4.11 illustrates in **Good Practice 5** the development of an industrial village.

Box 4.11: Good Practice 5

Development of an industrial village in Nam Cao, Kien Xuong – Thai Binh

Nam Cao is a hamlet with a population of 6,538 and labour force of 3,250. Starting with 3 private enterprises engaged in silk weaving and dyeing, the Nam Cao Authority has organised, promoted, and encouraged the establishment of MSEs specialised in silk weaving and dyeing.

The industrial village commenced in an attempt to solve the unemployment problem in Nam Cao and neighbouring hamlets. To date, 95 per cent of village households are engaged in silk weaving and dyeing, with 1,500 looms. Of these, 75 per cent have changed from manual weaving to using model equipment, in order to improve productivity and their working conditions.

HEs are the most popular legal structure in Nam Cao and specialize in production, trading, and services. The average income per worker exceeded VND 20 million in 1999, with two-thirds of this income coming from this traditional industry.

In part, these results have been achieved because the Nam Cao Authority took the following measures:

1. Exempting tax and fee for start-ups;
2. Creating favourable conditions on security, lodgings, etc. for material suppliers and buyers from other provinces to stay in Nam Cao;
3. Encouraging production group to lease machineries to the HEs, which are unable to buy them;
4. Gathering highly skilled and enthusiastic people (in this case, weavers) into production groups, in order to join capital and to find export markets –mainly markets in Laos.

The Nam Cao example shows that industrialization and employment creation in rural areas can be achieved through the development of village industry. The support of local authorities (the nearest level to micro and small enterprises) can mobilize the knowledge and capital sources of the populace and reap considerable rewards.

Lessons learned:

- Government and local authorities should have very specific promotional measures for HEs.
- Typically, enthusiastic neighbouring businesses encourage MSEs and HEs to start up their business.
- Organizing industry villages (cluster) specializing in particular services and production phases will bring high effectiveness.
- Collective marketing is suitable with MSEs in industrial villages.

Note: See Annex 4, Good practice: A list of contact addresses.

4.7.3 Observations

Effective commercial policy ensures a balanced and healthy market for enterprises. Their limited scale means that MSEs in Viet Nam cannot approach the market that the Government is encouraging because it concentrates on developing a specifically export market. The role, and the real-life situation of MSEs is out of kilter with the present policies, which cannot develop enterprise potential in this sector unless it concentrates on MSE-specific areas in domestic and industrial subcontracting markets.

Since market is the factor with the strongest influence on employment in MSEs, the policy for market development should be given more attention, in order to create more good jobs. However, to approach markets, MSEs should increase their competitive abilities and decrease production costs in order to be on an equal footing with large-sized enterprises to access market. To achieve this, MSEs need strong support from the Government in the form of support for technology innovations and business development services.

4.8 Business development services and innovation policy

4.8.1 *The emerging business development services market*

At present, there are no specific policies or laws stipulating the development of Business Development Services (BDS) except for technology transfer. Education and training at secondary school, technical college, university, and post-graduation levels is managed by the Ministry of Training and Education to develop human resources, mainly focused on long-term training for students and managers. Decree No. 73/1999/ND-CP formulated policy for the establishment of promotional organizations providing training services.

However, the Vietnamese Government has not yet set up a consistent policy on the development of consultancy services. This is an obstacle to BDS delivery for MSEs. Among the 5,000 legal documents which were effective until 31 January 2001, 52 documents mention consultancy, but do not yet define the concept clearly – one reason for the emergence of fake consultancy and corruption-driven consultancy. The consultancy service is not recognized as a profession in the national professions list.¹⁹ No document mentions the nature and role of consultancy, or moral standards and professional knowledge, principles of dealing with a consultancy's supplier-and-provider relationship, or the role of the government to promote and encourage the provision and use of consultancy services.

Another obstacle is that, to date, no regulation creates favourable conditions for industrial MSEs with limited budgets to resort to consultancy services when needed. For example, the taxes on consultancy services are almost at the same level as for other services and, as mentioned above, there is no legal framework on the consultancy profession or its ethics. MSEs thus have to pay high costs for consultancy services of poor quality. Only 17 per cent of enterprises receiving consultancy services are satisfied with the quality. This is also a reason why MSEs usually use friends or family members as consultants, or proceed alone.

Meanwhile, the Government has promulgated a special regulation on foreign investment consultancy services for large enterprises. The clear-cut regulations for large enterprises and their larger financial resources lead the Vietnamese consultancy companies to focus only on large enterprises and FDI-funded companies.

On the supply side, this uneven playing field among private, non-governmental, and State organizations is distorting the BDS market. Many enterprises have had to pay a fee, while some State national programmes are provided free of charge. Financed from the State budget, governmental BDS providers have more resources but are less interested in providing services to private MSEs, which are not closely related to them. As in other countries, the bureaucracy of these governmental organizations limits the attraction of MSEs for these BDS.

In practice, some national programmes targeted to specific groups are bringing BDS to MSEs (e.g. the Employment Creation Programme, Programme of Repatriation, Start-up and Improve Your Business Programme, Women Assistance Programme). But, because the definitions of MSEs are not uniform, several delivery problems arise:

¹⁹ For example, some types of consultancy service are classified under group 6719: "other financial intermediate assistance activities"; others as "activities relating to computers"; and the remainder as "other businesses".

- Some target groups receive considerable assistance from various programmes while others cannot access the benefits provided by the supporting programmes due to their lack of knowledge on policies.
- Some enterprises with more than 3,000 employees have benefited from MSE-supporting projects.²⁰
- Some MSEs, especially in rural areas, accustomed to the former centrally planned economy, participate in supporting programmes for the immediate financial benefit of the daily allowance.

In urban areas, there are signs that BDS programmes for MSEs tend to develop toward market mechanisms. However, the quality of programmes still fails to meet the MSE needs, due to lack of government assistance on product development. Some programmes are trying to address this issue. For example, the VCCI/ILO Programme, “Start and Improve Your Business” is one of the successful programmes to assist MSEs in Viet Nam. BDS of improved quality are emerging and some BDS providers have started to become sustainable.

4.8.2 Policy on technology diffusion

The technology development policy has been subject to significant improvements, in order to promote the demands of enterprise development in general and MSEs in particular. By virtue of the Ordinance on Technology Transfer promulgated on 5 December 1988 by the Standing Committee of the National Assembly, the Government created the first legal framework for technology transfer activities in Viet Nam. Later, this Ordinance was replaced by the regulations in the Civil Code. After two years applying these regulations, on the 1 July 1998 the Vietnamese Government promulgated Decree 45/1998/ND-CP defining the details of technology transfers. The new regulations have been significantly changed: more transparent, clearer, they especially enhance the active initiatives of enterprises in signing technology transfer contracts. The equipment prices are defined through bidding. When refusing a bid, the State organizations in charge must reply to the bidder in writing.

However, the policy on technology transfer focuses on the management of technology transfer activities in SOEs. The provisions on contract pricing defined by the fixed price framework is only suitable for SOEs that are using money from the national budget for technology transfer activities. MSEs require more flexibility. Moreover, due to their lightweight or poor accounting documentation and bookkeeping, the basics defining the price framework are not feasible for MSEs.

Like the consultancy activities, in Viet Nam the policy on technology transfer undervalues the current status and the demands for technology innovation of Vietnamese enterprises in the process of globalization. The current model in technological policy provides favourable conditions for horizontal technology transfer agreements between businesses with the relevant financial capacity and worker skills to adapt and use technology. Technology is thus transferred only from large enterprise to large enterprise.

In practice, the Vietnamese Government very actively supports the fundamental research studies executed through the National Programmes, such as the use and development

²⁰ Report made by the Project on Assistance to Small and Medium Industrial Enterprises (UNIDO–MPI US/VIE/95/004).

of automation technology, biotechnology, development of new materials, and information technology. However, Viet Nam lacks policies and practical initiatives to promote the diffusion of technology use in order to increase the technology-attractive capacities of firms, especially MSEs.

To support MSEs in the innovations field, many other countries have taken special policy steps to reduce the gap between technology development and implementation. A range of collaborative public-private research mechanisms has been established. These measures also seek to shorten the time taken to commercialize new technological innovations and focus research on key needs and opportunities. For example, Technical Assistance Centres (TAC) have been established in Singapore, Japan, and Spain. The Malaysian Government introduced an Industrial Technical Assistance Fund (ITAF) in 1990 for the purpose of improving the technology level of MSEs. A wide variety of policy measures have been initiated across countries to accelerate the diffusion of technology. These efforts include awareness-building and technology demonstration (United States); extending training and pilot production (Japan); “good practice” firms (Germany, Spain, United Kingdom); and providing technology information services (Denmark). The examples are there to follow.

The Government of Viet Nam has sought a way of technology assistance to enterprises through the traditional measures of giving incentives for technology receivers and R&D activities of enterprises. Decree No. 119/1999/ND-CP of 18 September 1999 provides incentives on corporate tax, land-use right fee, import tax and bonus to enterprises of all sectors in the implementation, study, and application of science/technological results, technology innovation, producing new products, and providing science/technological services. For instance, enterprises are subsidized 70 per cent of the patent fee for completed technology; they can be supported 30 per cent of the total cost for studying new technology, which is encouraging development industries. However, as usual, SOEs receive the most favourable conditions. They have a right to withdraw 50 per cent of their after-tax income as a bonus for the technology developed by their research team.

The coverage of the policy on technology transfer is far behind expectations, due to shortcomings in its initial design and later implementation. Only 4 per cent of FDI-funded enterprises have their technology transfer contracts approved by the State, apart from the numerous illegal technology transfers that take place without approval of the authorities. Many MSEs import outdated machines which flout environmental protection standards.

Recently, the Government has shown interest in the development of technology-based MSEs through the incubator model. However, the issue of sustainability of the incubator model remains undetermined.

4.8.3 Observations

Despite the almost worldwide acceptance that MSEs require BDS support, generated by governmental, non-governmental and private BDS providers, in Viet Nam a policy or mechanism to boost the BDS market is lacking. The Government needs to develop a policy to strengthen the capacity of all BDS providers, bring them onto a level playing field and encourage competition between them, so that more and more MSEs can benefit from good quality BDS and be globally competitive.

Part 5 enlarges on the observations made in the foregoing sections and recommends a series of points and follow-up action that could be taken to boost competitiveness, job creation and enterprise sustainability.

5. Conclusions

This section summarizes the present analysis and answers the focus questions raised in the Introduction. It also indicates policy weaknesses and how they could be strengthened to benefit MSE development in Viet Nam.

The first question concerned the role of small enterprises in the social and economic development of Viet Nam. Decree No. 90/2001/ND-CP, dated 23 November 2001, officially defines SMEs as enterprises that are independent registered business and production establishments with registered capital of less than VND 10 billion, or average number of annual employees less than 300. Even though the SME concept only appeared in Viet Nam after the *Doi Moi* (renovation process) 1986, this sector has developed at high speed and contributed remarkably to GDP and employment creation. This development was the result of a series of laws promoting private-sector development, in which MSEs account for a majority. The development of MSEs has a vital meaning for employment since not only does this sector create major employment for non-agricultural labourers in Viet Nam, but the costs of creating jobs by MSEs is considerably less than for large-scale enterprises. In the industrial sector, the share of employment in MSEs is 54 per cent.

The establishment and development of MSEs has grown from 4,000 enterprises (officially registered) to more than 70,000 within a decade. The emergence of 2.1 million household enterprises, with the average formal private enterprise creating about 20 jobs, amply demonstrates that the jobs created only meet market demands and are not the result of development strategies targeted to resolve the labour abundance problem.

The majority of non-agricultural workers are employed in MSEs. Job quality in these enterprises often does not meet international labour standards due to limitations of scale, management skill and level of awareness. Although the income of labourers in MSEs is not very much less than in large enterprises (even higher in some fields and locations), the conditions of work, job security, working time and safety and health issues in MSEs are lower in terms of job quality than in large firms. Employees in MSEs may be facing underemployment. However, they are well above the poverty line.

The second question sought to identify the main elements of a well-designed policy and legal environment to foster employment creation within MSEs. This question reflected a concern with the nature of the connection between the policy and legal environment and the quantity and quality of employment to be found in small enterprises. The Ninth Viet Nam Communist Party Congress (April 2001) devised strategic goals for the period to 2010, aiming to double the present GDP and to reduce agricultural labour from 61.3 per cent to 50 per cent. In order to meet these targets, economic policies and legal environments must be built to provide favourable influences for creating sustainable employment in MSEs.

Based on the assessment of a series of important laws and policies, this report makes the following points on the relationship between the quality and quantity of labour in MSEs and the policy and legal environment. *First*, employment patterns in MSEs depend mainly on the legal and policy environment which, in Viet Nam, is still “under construction”. Regulations and policies that do not correspond to actual needs or are inappropriately designed for MSEs, often directly affect the quality and quantity of labour. In recognition of the role of MSEs in job creation, the Government has introduced the Enterprise Law, a regulation tailored to support MSEs and to supplement existing MSE-encouraging policies. Changing the legal and

policy environment can have a significant impact on the quality and quantity of labour in MSEs. The Enterprise Law offers proof of this: during the two years after its introduction, 50 per cent more private enterprises were established than the total for the previous 10 years. Since the Foreign Investment Law came into effect (1987), jobs created by enterprises registered under the new Enterprise Law equal those created by the whole foreign-investment-funded sector. Regarding job quality, the Labour Code is a specific case of the direct effect of unclear regulations on job quality in micro enterprises, which are outside the scope of the present law and lead to labour problems in this sector.

Second, a more favourable policy and regulatory environment is needed to create equity conditions for MSEs in order to smooth the constraints encountered by small-scale enterprises and to develop competitive advantage. While the State enterprise sector cannot create further jobs, the needed creation of 1.4 million new jobs each year should focus on the MSE sector. Regulations in Viet Nam are only just beginning to pay attention to MSEs. With the exception of the Enterprise Law, the Hunger Eradication and Poverty Alleviation Programme (HEPAP) and the Job Creation Programme, regulations and laws tailored to MSEs are still undeveloped.

Third, the main elements listed below still need action:

- ❖ The planning stages of policy-making are not sufficiently MSE-specific. Regulations on the legal structure of enterprises, for example, favour large-scale SOEs. The clearest illustration is credit and commerce policies, which discriminate against the private enterprise sector and small enterprises.
- ❖ Criteria for defining MSEs should be unified under one standard definition.
- ❖ Policies and regulations are not clearly worded, not specific or complicated and discourage entrepreneurs from implementation (labour policies, for example).
- ❖ Government incentives are presented under tax policies which offer the concept of “stimulation and bonus” to enterprises *after* they achieve specific targets (for example, creating multiple jobs) but do not offer the “support” concept necessary to kick-start enterprise capability. Supporting policies are not building a level playing field between MSEs and larger enterprises. Moreover, MSEs require much more support for them to start playing at all. For example, in policies of market guarantee for MSEs, the government should not only give priority to MSEs for some contracts but also help MSEs foster enough capability to bid for a contract successfully.
- ❖ The overall legal framework has not been fully formulated to support MSE activities. When special supporting policy for development of MSEs was recently introduced, a legal framework for BDS was not integrated with it.
- ❖ National target programmes focusing on job creation always have positive results and the implementation of MSE-supporting policies through target programmes is valuable experience. The commitment of the Government to give priority to programmes supporting MSEs owned by women entrepreneurs is an encouraging sign.

The third question concerned the extent to which policies, laws and regulations can be designed to positively improve employment patterns within MSEs. This report finds that the policy and legal environment and the implementation of policies for MSE development have not been formulated cohesively. Why? *First*, the complicated procedures and high costs are obstacles to compliance. Micro and small enterprises are severely constrained by hidden costs in tax regulations. *Second*, the role of the State organisations toward MSEs is still carrying some bureaucratic features. The Government uses its budget expenditures to subsidize certain enterprise sectors, while inspecting, controlling or deeply intervening in the business activity

of the MSEs. In addition, State assistance for MSE-specific support is restricted in terms of quantity, quality and variety. **Third**, the intermediary and support organizations that exist are weak in regard to their capacity and cannot effectively implement government policies. **Fourth**, some government policies and laws do not reflect the reality experienced by MSEs (the Bankruptcy and Commercial Laws, for example) so they are unmeaningful and difficult to implement. There is a lack of implementation models, schemes and mechanisms to better disperse the impact of policies and regulations (innovation policies) that are introduced. **Finally**, not enough attention has been paid to informing MSEs and other relevant bodies of the policies and laws that affect them.

In the empty space between policy design and its implementation, the following factors are emerging:

- The laws and regulations do not always reflect the demands of MSEs in the process of development. The lack of skilled labour for MSEs is the result of a lack in human resource development policy, for example.
- Insufficient awareness of the goals of legislative regulation on the part of policy-implementing authorities makes regulations less effective.
- Lack of capacity to meet policy prerequisite means that policy goals “cancel out” each other (for example, the credit policy for enterprises is established but not the special supporting tools, i.e. credit guarantee funds).

Experience from other countries provides a number of lessons in the process of policy design and implementation that may be applied in Viet Nam. Among these are:

- Strong government interventional policy can lead to MSE over-dependence by entrepreneurs, who need to develop enough entrepreneurial spirit to survive in a tough competitive market.
- Clear policies and regulations will create favourable conditions for MSEs to forecast their opportunities and risks, in order to invest in quantity and quality employment.
- Policy modification will help the process of policy implementation in its deepest and widest sense: Viet Nam has to look at good practices, internally and externally, and then develop policies suitable to their evolution.

In a word, yes. Decent jobs require good policies.

And what are good policies? Good policies are those reflecting the real needs of targeted groups, in conformity with the overall development of the country. If progress is to be achieved, this process must equally involve not only policy-designers but also implementing bodies. This report has shown that the Good Practices illustrated herein can be applied and the examples from other countries taken and reformulated to suit MSE needs for a sustainable future.

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Annex 1: Scope and description of surveys used for the present report

A1.1	Survey on the Implementation of the Enterprise Law and Impediments for the Development of Enterprises in the Non-State Sector (2000)
Who	VCCI
Purpose	To collect comments and viewpoints from enterprise owners in the private sector. Special attention paid to (i) the new business registration system under the Enterprise Law, (ii) roles of government bodies, (iii) post-registration control, inspection and supervision and (iv) other key issues that might affect the business environment for all types of enterprises.
Population and sample	Population: The private sector. Sample: 766 of which: 523 limited liability, 174 private enterprises; 53 joint stock companies and 3 partnership companies.
Variables	General information (name, type of business, date of establishment and place of registration), business registration issue, withdrawal of sub-licences, post-control issues, participation in tender.
Report	VCCI: Report on the implementation of the Enterprise Law, 2002
A1.2	Survey on Entrepreneurship in Viet Nam (2000)
Who	CIEM, Nomura Research Institute (Viet Nam/ Japan Joint Research)
Purpose	To analyse the patterns of entrepreneurship in Viet Nam and factors affecting the entrepreneurship.
Population and sample	Population: non-State enterprises Sample: 452 non-State enterprises.
Report	CIEM: The Entrepreneurship in Viet Nam, 2001
A1.3	Survey on Micro and Small Enterprises (2001)
Who	VCCI- ILO
Purpose	To assess the employment situation in MSEs To analyse the responses of MSEs to existing policies and factors influencing MSEs decisions regarding employment, job quality and investment.
Population and sample	Population: Micro and small enterprises with 1 to 49 employees, including HEs Sample: 312 MSEs.
Variables	Characteristics of MSE owners, changes in quantity of employment, job quality. Business registrations and reasons for registering/not registering; employment, job quality and investment decisions taken by SMEs; impact of SMEs decisions on employment patterns.
Report	VCCI Survey on Micro and Small Enterprises in Viet Nam, Survey report 2001b (unpublished IFP/SEED background paper)
A1.4	MOLISA's Survey on Enforcement of Labour Code (2000)
Who	Institute of Labour and Social studies, MOLISA-VIE/97/003
Purpose	To assess the enforcement and coverage of Labour Code and sub-law regulations in order to propose the appropriate amendment
Population and sample	Population: 3.113 in total, including 2.597 employees, 320 employers 104 trade union staffs, 92 lawyers and researchers
Variables	Responses on implementation of Labour Code
Report	-MOLISA Survey report on enforcement of Labour Code, 2000 -Journal "Labour and Social", special issue No. IV/2002

Annex 2: Institutional mapping

Table A2.1 *Economic policy and law formulation responsibility*

Government	Semi-government	Private	NGO, CBO, others
1. National Assembly			Viet Nam Solicitors Association
2. Government Office			
3. Central Economic Department of Party			
4. Ministry of Planning and Investment			
5. Ministry of Finance			
6. Ministry of Trade			
7. Ministry of Industry			
8. Ministry of Agriculture and Rural Development			
9. Ministry of Science, Technology and Environment			
10. Ministry of Construction			
11. Ministry of Transport			
12. Viet Nam State Bank			

Table A2.2 *Advocacy and business representatives*

Government	Semi-government	Private	NGO, CBO, others
Provincial People's Committee	1. Central Council of Cooperatives Union and SMEs of Viet Nam	1. Industries Associations (Textiles, Leather-shoes, Plastic)	1. Viet Nam Chamber of Commerce and Industry
	2. Viet Nam Labour General Federation	2. Ho Chi Minh Enterprise Club	2. Foreign Investment Enterprise Club
	3. Viet Nam Women's Union	3. Hanoi Association of Small and Medium Enterprises	3. Vietnamese Overseas Enterprise Club
	4. Viet Nam Technology and Science Federation Association	4. Ho Chi Minh Union of Associations of Industry and Commerce	
	5. Central Communist Youth of Viet Nam	5. Hanoi Union of Associations of Industry and Commerce	
	6. Farmers' Association	6. Other Business Associations	

Table A2.3 *Business development services (BDS) providers*

Government	Semi-government	Private	NGO, CBO, others
1. General Department of Quality Measure and Standard	1. Central Council of Cooperatives Union and SMEs of Viet Nam	1. Business Promotion and Service Centres	1. Viet Nam Chamber of Commerce and Industry
2. Foreign Trade and Investment Development Centre of Ho Chi Minh city	2. Viet Nam Council of Young Entrepreneurs	2. Viet Nam Economics Association	2. Viet Nam-German Enterprise Club
3. Centre for Environmental Science and Technology (CESTI)		3. Consulting Companies	3. Women Enterprise Club
4. National Economics University		4. Other Business Associations	4. Start up Enterprise Clubs
5. Employment Promotion Centres, DOLISA			
6. Bac Giang Business Consultation Centre			

Table A2.4 **Financial institutions**

Government	Semi-government	Private	NGO, CBO, others
1. Viet Nam Bank for the Poor		1. Asian Commercial Bank (ACB)	1. Mekong Project Develop Facilities (MPDF)
2. Development Assistance Fund (DAF)		2. Maritime Bank	
3. Bank for Industry and Commerce		3. East-Asia Banks	
4. Viet Nam Bank for Agriculture and Rural Development		4. Joint-Stock banks	
5. Bank for Foreign Trade			
6. Bank For Investment and Development			

Table A2.5 **Infrastructure**

Government	Semi-government	Private	NGO, CBO, others
1. Ministry of Science, Technology and Environment		1. Ho Chi Minh Building Materials and Building Association	
2. Ministry of Transport		2. Hai Phong Building Materials and Building Association	
3. Ministry of Construction		3. Viet Nam Building Consulting Association	
		4. Cables and Lines Association	

Annex 3: Statistical overview, Viet Nam, 1995-2000

Table A3.1: Investment

	1995	1997	1998	1999	2000
Total value (billion VND)	68,047.8	96,870.4	97,336.1	103,771.9	120,600
Share of investment on GDP	29.7%	30.9%	27%	26%	27.15%
Structure of total investment (%):					
State investment	38.3	48.1	54	61.1	61.9
Domestic non-State investment	29.4	20.6	21	20.2	19.5
Foreign direct investment	32.3	31.1	25	18.2	18.6

Source: GSO (2001); GDP based on current prices.

Table A3.2: Main exports (US\$ million, FOB)

	1995	1997	1998	1999	2000 (Est.)
Textiles & garments	850.0	1,502.6	1,450.0	1,747.3	1,815.0
Petroleum	1,024.0	1,413.0	1,232.0	2,017.0	3,582.0
Rice	549.0	870.0	1,024.0	1,035.0	668.0
Marine products	621.4	782.0	858.0	971.1	1,475.0
Footwear	296.4	978.4	1,031.0	1,391.6	1,402.0
Coffee	495.0	791.0	594.0	592.0	485.0
Rubber	181.0	191.0	127.0	145.0	170.0
Cashew nuts	130.0	133.0	117.0	94.0	130.0
Total including others	5,448.9	9,185.0	9,360.0	11,540.0	14,308.1

Source: GSO (2001).

Table A3.3: Main imports (US\$ million; CIF)

	1995	1997	1998	1999	2000 (Est.)
Machinery & spare parts	2,761.0	1,777.0	2,052.0	2010.0	2,482.0
Petroleum products	856.0	1,094.0	827.0	1033.0	2,016.0
Fertilizers	339.0	425.0	477.0	473.1	509.0
Steel	n.a.	529.0	524.0	588.8	768.0
Electronics, PCs and components	n.a.	n.a.	616.6	639.0	869.0
Textiles fabrics	108.6	414.3	529.5	505.3	316.0
Garments materials & items	304.6	897.1	710	1,095.8	1,334.0
Medicaments	69.1	340.4	312.3	266.7	301.0
Total (including Other)	8,155.4	11,592.3	11,490.0	11,622.0	15,200.0

n.a.: not available. Source: GSO (2001).

Table A3.4: Main trading partners, 1999 (% of total)

<i>Exports to:</i>		<i>Imports from:</i>	
Japan	17.8	Singapore	18.8
China	8.6	Taiwan	14.9
Singapore	8.2	Japan	14.7
Australia	8.1	South Korea	14.4
Taiwan	6.8	China	6.3
Germany	6.5	Hong Kong	5.8
United States	5.0	Thailand	5.5

Source: General Department of Customs, 2000.

Table A3.5: Employed labour force 1995-2000 ('000, mid-year)

	1996	1997	1998	1999	2000 (Est.)
Total employment	33,978.0	34,352.2	34,800.5	35,679.5	36,205.4
of which:					
State sector	2,972.6	3,094.2	3,532.9	3,605.7	3,643.8
Non-State sector	31,005.4	31,127.7	31,083.4	31,883.8	32,343.3
Foreign Investment		130.3	184.2	190.0	218.3

Source: GSO (2001).

Table A3.6: Share of employment by economic sector in rural/urban areas

<i>Items</i>	1992-93			1997-98		
	Rural	Urban	Total	Rural	Urban	Total
Total	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture, Forestry, Fisheries	83.04	21.51	71.09	79.23	13.43	66.28
Industry & Construction	7.31	30.73	11.86	9.05	30.18	13.21
Services	9.65	47.76	17.05	11.72	56.39	20.52

Source: GSO (2000).

Table A3.7: Number of private enterprises by legal status, 1993-1998

	1993	1994	1995*	1996	1997	1998
Private Enterprises	6,808	10,881	15,276	18,894	25,002	26,021
Sole Proprietorships	5,182	7,794	10,916	12,464	17,500	18,750
Limited Liability Companies	1,607	2,968	4,242	6,303	7,350	7,100
Joint-Stock Companies	19	119	118	127	152	171

Note: * In 1995, the General Statistical Office included firms from finance/credit, real estate, technology services, sports and culture that were not included in any other years.

Source: GSO (1999).

Table A3.8: Average capital size of enterprises (VND million)

	Private	Local SOEs	Central SOEs
1993	466	7,424	206,477
1995	467	19,654	1,703,642
1997	487	13,122	n.a.
1999	953	24,986	n.a.
2000	926		

Source: GSO (2001).

Table A3.9: Annual GDP growth by form of ownership 1992-1999 (%)

	1992	1993	1994	1995	1996	1997	1998	1999
Total	8.6	8.1	8.8	9.5	9.3	8.2	5.8	4.8
State Sector	11.5	10.6	11.9	9.4	11.3	9.7	5.6	4.3
Non-State Sector	7.0	6.5	6.9	9.6	8.0	7.1	5.9	5.1
Domestic Private					6.6	5.2	3.8	3.6
Household and Farmers					6.6	5.6	3.4	3.9
Formal Private					10.6	6.2	5.7	2.0
Collectives					3.6	2.6	3.5	3.6
FDI enterprises					19.4	20.8	19.1	13.4

Source: GSO (2001).

Table A3.10: Average industrial output growth, 1995-1999 (%)

<i>Industries</i>	<i>State</i>	<i>Private</i>	<i>Households</i>	<i>Collectives</i>	<i>FI</i>	<i>Total</i>
Industry	9.0	20.8	4.9	13.7	22.6	13.0
Mining	6.7	46.2	4.5	10.7	17.4	15.3
Manufacturing	8.3	20.7	4.9	14.5	25.9	12.6
Of which:						
Food & Beverage	15.9	5.0	41.0	18.4	10.5	n.a
Textile Products	5.9	44.7	1.0	4.0	28.4	10.7
Garments	12.2	30.7	7.6	53.0	27.2	15.5
Leather	12.5	30.1	8.0	67.8	35.2	23.9
Paper & paper products	11.4	36.0	18.	17.4	15.5	16.0
Printing, copying, publishing	6.4	47.4	17.8	-19.5	1.6	7.0
Chemicals	10.5	24.7	4.3	25.8	36.2	15.3
Rubber & Plastic	14.0	42.8	11.0	4.1	36.1	21.7
Non-metallic	10.0	18.8	1.6	3.9	61.8	13.0
Metal products	10.9	7.7	9.2	15.5	53.2	19.4
Machinery and Equipment	11.6	14.7	8.6	41.4	38.0	13.7
Electric and Electronic products	16.4	62.4	12.2	57.6	52.2	24.2
Assembling, repairing motor cycles	13.7	4.6	8.0	25.7	7.8	7.8
Other transport	8.8	30.1	9.2	33.5	51.1	24.3
Furniture	11.4	7.3	6.2	18.3	56.9	12.2
Electricity, gas and water	14.0	21.1	34.3	12.3	0.0	14.1

Source: GSO (2001).

Table A3.11: Share and growth of employment by form of ownership (GSO)

<i>Items</i>	<i>Share</i>			<i>Average Growth</i>
	1995	1997	1999	(1995-99)
Total (in 1000 persons)	34,600	36,994	39,420	3.3
State	9.4	8.8	8.8	1.7
State Enterprises	5.1	5.2	5.1	3.2
State Administration	4.2	3.7	3.7	0.1
Non-State	90.6	91.2	91.2	3.5
Domestic Private	90.0	90.2	90.4	3.4
Households and farmers	89.0	89.0	89.0	3.3
Formal private sector	1.0	1.2	1.4	13.2
FDI enterprises	0.3	0.6	0.6	34.2
Collective Sector	0.3	0.4	0.2	-1.9

Source: GSO (2001).

Annex 4: Good Practice – Contact addresses

Good practice 1:

Business registration through the Internet in Ho Chi Minh City

Tel: 8291839; Fax: 8290817
E-mail: skhdt@hcmste.gov.vn
Web: <http://203.162.42.23/thongtindntn>

Good practice 2:

Trust credit for women entrepreneurs

Contact: Dang Minh Hoa,
Viet Nam Women's Union
39 Hang Chuoi Street, Hanoi, Viet Nam
Tel: +844 971 3436, Fax: +844 971 3143

Good practice 3:

The Credit Guarantee Fund of ICB

Contact: Mrs. Bui Nhu Y, Long Term-credit Department, ICB
Address: Hanoi Tung Shing Square, 2 Ngo Quyen, Hanoi, Viet Nam.
Tel: +844 934 1092; Fax: +844 934 1070

Good practice 4:

Implementation of Law on Encouragement of Domestic Investment in An Giang

Contact: Mr. Le van Sau, Director.
A Giang Department of Planning and Investment
Address 8/18, Ly Thuong Kiet Street, Long Xuyen City,
An Giang Province, Viet Nam
Tel: +84 76 852 913

Good practice 5:

Development of Industrial Village in Nam Cao Kien Xuong – Thai Binh

Contact: Nguyen Thien Cuong, Chairman of Nam Cao Hamlet,
Kien Xuong District, Thai Binh Province, Viet Nam

Annex 5: List of individuals consulted in the course of this report

No.	Person	Organization
1.	Bui Huy Cuong	Department of Planning and Investment, Ho Chi Minh City
2.	Ha Van Minh	Economic Division, Tan Binh District, Ho Chi Minh City
3.	Huynh Phong Luu	DOLISA, Ho Chi Minh City
4.	Khuong Thai Hoc	DOLISA, Dong Nai Province
5.	Le Mai Thanh	DOLISA, Dong Nai Province
6.	Luu Van Nghia	Economic Division, District 1, Ho Chi Minh City
7.	Mai Thanh Chau	DOLISA, Dong Nai Province
8.	Nguyen Cuong	Trade Department, Ho Chi Minh City
9.	Nguyen Dong Phong	Economic University of Ho Chi Minh City
10.	Nguyen Ngoc Hanh	Ho Chi Minh City Women Union
11.	Nguyen Thi Phuoc Dung	Taxation Department, Ho Chi Minh City
12.	Nguyen Va~ Thu	MOSTE
13.	Nguyen Van Trong	NEDCEN/VCA
14.	Pham Ba Cuu	SMEDEC, Ho Chi Minh City Branch
15.	Pham Duy Nghia	Law Business Faculty of Hanoi National University
16.	Phan Hong Duc	Economic Division, District 5, Ho Chi Minh City
17.	Phung Quang Huy	SIYB/ILO Project
18.	Phung Thu Ha	State Bank, Ho Chi Minh City Office
19.	Than Thi Thuy Tram	Economic Division, Binh Thanh District, Ho Chi Minh City
20.	To Anh Duong	State Bank of Viet Nam
21.	To Dinh Thai	Ministry of Planning and Investment
22.	Tong Thi Minh	MOLISA
23.	Tran Thi Oanh	State Bank, Ho Chi Minh City Office
24.	Truong Thi Hoa	Bar Association of Ho Chi Minh City
25.	Vo Sang Nghiep	MTC-ECO, SMEs Consultation Co.
26.	Vu Quoc Tuan	Member of Prime Minister research Team
27.	Nguyen Ngoc Thien	Thua Thien-Hue Department of Planning and Investment
28.	Phan Man	Thua Thien-Hue Department of Planning and Investment
29.	Pham Thi Bich Thuy	Thua Thien-Hue DOLISA
30.	Pham Thi Thu	Thua Thien Hue Women's Union
31.	Hoang Thi Thu Phuong	Thua Thien Hue Commercial and Travel Department
32.	Nguyen Van Thanh	Thua-Thien Hue Department of Planning and Investment
33.	Dang Minh Tuan	Hue Economic Department of Party
34.	Le Xuan Nhan	Thua Thien-Hue Cooperative Union
35.	Tran Ho Hai	Phong Dien District Economic Division, Thua -Thien-Hue
36.	Ho Viet Nhuan	Phu Vang District Economic Division, Thua Thien-Hue
37.	Nguyen Mai Ngu	Phu Loc District Economic Division, Thua Thien-Hue
38.	Do Thi Nguyet	Thua Thien-Hue Agriculture Department
39.	Phan Van Thien	Thua Thien-Hue Culture and Information Department
40.	Nguyen Thai Liem	Huong Tra District Economic Division -Thua Thien-Hue
41.	Chau Huu Phuoc	Thua Thien-Hue Business Registration Division
42.	Le Thi To Nga	Thua Thien-Hue Business Registration Division
43.	Ngo Van Loi	Quang Tri DOLISA
44.	Pham Van Minh	Quang Tri DOLISA
45.	Hoang Van Suu	Quang Tri Department of Planning and Investment
46.	Nguyen Van Dung	Quang Tri Department of Planning and Investment
47.	Hoang Viet Quoc	Phong Dien District Economic Division ,Thua Thien-Hue
48.	Le Du	Huong Thuy District Economic Division ,Thua Thien-Hue
49.	Phan Mui	ND District Planning and Finance Department, Thua Thien-Hue Province
50.	Tran Thi Moi	A Luoi District Economic Division, Thua Thien-Hue Province

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