

**STUDY
ON
THE PROMOTION OF SMALL AND MEDIUM SCALE
INDUSTRIAL ENTERPRISES
IN
THE SOCIALIST REPUBLIC OF VIETNAM**

INDIVIDUAL POLICY REPORT

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Glossary of Names for Organizations.

(New organizations/units proposed in this study)

CTS: Center for Technical Support

(technical support center to provide technical assistance for SMEs to be established under the umbrella of SMESCs)

CPSIT: Center for Promotion of SI Transaction

(information support center for promoting SI transactions)

DOSMEP: Department of SME Promotion

(SME promotion department at local people's committee)

OSAD : One- Stop Advisory Desk

(SME service desk prepared at local people's committee, industrial organizations or other appropriate place to provide necessary information to SMEs)

SMEFC: SME Finance Corporation

(financial institution for SME policy finance)

SMEPA: Small & Medium Enterprises Promotion Agency

(SME promotion organization to be developed at central government)

SMESC: Small & Medium Enterprises Support Center

(regional function center to support SME to be established in core of a region)

(Abbreviations for existing organizations)

HEPZA: HCMC Export Processing & Industrial Zone Authority

MARD: Ministry of Agriculture and Rural Development

MOET: Ministry of Education and Training

MOF: Ministry of Finance

MOI: Ministry of Industry

MOLISA: Ministry of Labor, War Invalids and Social Affairs

MOSTE: Ministry of Science, Technology and Environment

MPI: Ministry of Planning and Investment

NEDCEN: Non-state Economy Development Center

SBV: State Bank of Vietnam

UAIC: Union Association of Industry and Commerce

VCCI: Vietnam Chamber of Commerce and Industry

VICOOPSME: Central Council for Cooperative Alliances and Small and Medium
Enterprises in Vietnam

VIETRADE: Vietnam Trade Promotion Commission

VIZA: Vietnam Industrial Zone Authority

(special terms frequently used in the report)

Supporting Industry: SI

Industries which provide major manufacturing enterprises with material processing or formation services such as pressing, metal mold manufacture and heat treatment, or component supply function. SI constitutes the basis of the integration of manufacturing industries which requires multi-steps of processing and assembly work.

Venture Capital

Venture capital is an establishment for investing into the venture business by equity investment or by purchasing a quasi-equity debt instrument issued during the period of initial start-up of either the investee's enterprise as a whole or a distinctive part of its business when the young business is in dire need of capital. The purpose of such investment is placed in the promotion of the venture business and subsequent capital gain for the venture capital. Venture business is defined as an enterprise established and managed with innovative and/or creative ideas and technologies by an entrepreneur of aggressive aspiration and spirits in taking risks for business success.

1. LAW AND SYSTEMS

1. Laws and Systems

1.1 Present Situation and Problems of the Legal System for SMEs

Since the adoption of the doi moi (reform) policy, the business environment in Viet Nam is improving steadily with the establishment of a number of laws and government decrees. Indeed successive efforts to institutionalize the legal system in recent years have narrowed the gap between the private and public sector legal systems.

Despite these developments in the legal aspect, however, there are still many problems with the Vietnamese legal institutions. Laws and ordinances include many ambiguities and inconsistencies, arising from the fact that civil law provisions for industrial property rights can be changed automatically in step with the trend in international agreements, and that the period of protection is not specified. The problems also include inconsistencies in the application of laws at the lowest administrative levels owing to the lack of enforcement bylaws, discriminations against private enterprises, confusions in the application of laws caused by an inadequate grace period for amendment of laws, and the insufficient dissemination of information.

Behind these problems are such factors as the lack of an attitude to observe laws and the absence of the determination to preserve the spirit of laws and ensure their consistent enforcement.

Inadequacies, ambiguities, frequent and sudden changes and inconsistencies in the application of laws are causing many difficulties. For instance, imprecise classification of import tariff items often allows great discretion at the lowest level, including customs officials. This tends to lead to bribery and smuggling. The application of the VAT system also poses many inconsistencies and confusions, because VATs can actually be collected from only a limited number of payers, including foreign-affiliated companies and big companies with advanced accounting books, and because VATs are imposed even on raw materials for export items. It often takes much time and cost to negotiate with collectors who tend to turn first to those willing to pay. There is also the problem of multiple account books which are intentionally made intricate to read in order to evade taxes.

Some other problems also can be pointed out from the viewpoint of SMEs. For instance, the preamble to the Commercial Law declares that state-owned enterprises (SOE) and corporations are important for the development of the Vietnamese economy, and rules out the role of privately-run enterprises in the Vietnamese economy. The new Bank Law discriminates against private enterprises in favor of SOEs by requiring collateral for bank loans. The Cooperatives Law also has a stipulation that can limit the support activity of the Union of Cooperatives and the Alliance of Cooperatives only to cooperatives (Chapter IV, Articles 48

and 49). Strict application of this stipulation can restrict support for private companies other than cooperatives.

In order to promote SMEs in Viet Nam, it is important to eliminate these problems of the present legal system, and realize a business environment that does not deter corporate activities both in terms of letter and actual application of laws and which does not discriminate against any business sectors.

From the viewpoint of promotion of SMEs, laws should be amended in line with the following five directions.

- a) To make enforcement bylaws as detailed as possible to minimize the scope of discretion of officials in charge at the time of law application.
- b) To eliminate inconsistencies among laws and clearly indicate information on the priority of laws.
- c) To provide thorough training to administrative officials at the time of the establishment of new laws in order to correct the present situation in which such officials have not caught up with the amendment of laws and establishment of decrees and decisions.
- d) To prepare a data base regarding legal systems and make it available to companies in order to clear up the confusion that has arisen from the great number of decrees and decisions.
- e) To realize level playing field (LPF) by promptly eliminating discriminative treatment and expressions that are seen in some laws.

This paper will focus both on the New Enterprise Law regarding corporate registration, which is considered to be specially important as a legal matter with regard to the promotion of SMEs, and on the SME Basic Law, which shows the basic direction for SME promotion.

1.2 Establishment of New Enterprise Law and its Expected Impacts on SMEs

1.2.1 Outline of the New Enterprise Law

It is planned to enforce, in January 2000, the New Enterprise Law which will replace the existing Laws on Company and Laws on Private Enterprises by unifying all laws concerning limited liability companies, joint-stock companies and partnerships.

The New Enterprise Law has the following points to note.

- a) It is markedly different from the former laws in that any matters that are not prohibited under the law are free in principle.
- b) The new law applies even to SOEs after their corporatization as well as to the enterprises run by social and political organizations. This is a departure from the existing two laws which are applicable only to private sector enterprises.
- c) The new law requires only one-time registration for establishment (Article 12) and simplifies documents to be submitted upon registration. This compares with the existing laws that require registration and approval of business.
- d) Inspection is required in exchange for simplified registration (Article 117). It is stipulated that inspection should be conducted at least once a year by the registration office within 30 days of registration and that occasional inspection should be conducted when necessary.
- e) The government's role for corporate promotion is specified (Article 114).
- f) The new law specifies enterprises' rights by allowing them to refuse the government's improper demand for information.
- g) Enterprises are obligated to submit accounting reports every year to the tax office and the registration office (Article 118). The required submission to the tax office is reasonable, but the advisability of submission of the reports to the registration office (People's Committees) is doubtful.

How to evaluate the New Enterprise Law depends on how much it can help improve the business environment of enterprises. Certainly there will be substantial improvements in the business environment through simplified registration procedures, for instance. However, as there has been no announcement of enforcement bylaws, it is still uncertain whether the new law can ensure a business environment really attractive to other corporate sectors such as households and cooperatives.

Some of households, the number of which is said to be 1.8 million, are likely to register themselves as private enterprises under the new law. However, many other households will unlikely follow suit, after weighing the advantages of registration (availability of various loans, for instance) and the disadvantages of registration, such as yearly submission of financial statements and inspection and other requirements.

When the SOE law and the Cooperatives Law are unified in the future, all enterprises will be able to exist under a single law. This apparent achievement of LPF (level playing field) may have the effect of announcement to the outside world that private enterprises in Viet Nam are equally treated under the law. On the other hand, however, this achievement will only be superficial unless it ensures “consciousness reform” at the lowest administrative levels and strict application of the system.

1.2.2 Matters Necessary in the Future regarding the Establishment of the New Enterprise Law

(1) Early Establishment of Enforcement Bylaws

It is necessary to promptly decide the enforcement of bylaws and ensure thorough dissemination of the ways to apply laws. Especially it is important to minimize possible confusion that may arise at the time of the shift to the New Law and help companies or entrepreneurs, who plan to start new business, so that they can develop their plans and commercialize their plans without worry.

(2) Clarification of the Registration Office

The New Enterprise Law requires registration with the enterprise registration office. In the past such registration was undertaken by the Department of Planning and Investment of each People’s Committee. It has not been clarified whether or not this past practice will be continued.

(3) Simplification and Actual Reduction

The New Enterprise Law takes consideration not to lay excessive burden on enterprises by limiting the frequency of their inspection to once a year. When there is evidence of violence of law, however, enterprises have to receive special inspection. If this system is used, harassment-like inspections are not impossible as was seen in the past. It is necessary, therefore, to specify the rules for the application of the inspection system and endeavor to virtually reduce inspections.

(4) Determination of the Schedule for Unification of Cooperatives and State-owned Enterprises

Amendment of the SOE Law and the Cooperatives Law is scheduled following the establishment of the New Enterprise Law. In amending these laws, it is desirable to take into due consideration both the consistency with the New Enterprise Law and the ways to ensure the integration of the three laws in the future. The timing of the integration should be specified.

(5) Planning for Promoting a Shift from Self-employed Business

Against the background of the improved corporate business environment after the establishment of the NEL, those who have operated self-employed businesses are expected to register themselves as private companies. From the viewpoint of SME promotion, this move is highly welcomed. This is because they can expect to continue their operations and achieve new business development while receiving support services from some organizations under the well-established corporate system. In reality, however, with corporate registration, these companies may be subject to inspection and various forms of intervention and “harassment” by government officials. It is necessary, therefore, to clarify the advantages of operating under the NEL and promote their emergence and the shift from self-employed businesses.

1.3 Necessity of SME Basic Law and the Direction of its Development

1.3.1 Necessity of the SME Basic Law

Since the adoption of the doi moi policy, there has been a growing recognition of the importance of SMEs as participants in the market economy. However, the awareness of the importance and necessity of SMEs within the Vietnamese government has been generally modest. In consequence, when various government policies and measures are implemented and operated, private enterprises have been relatively disadvantaged compared with SOEs and

foreign-affiliated companies. Moreover, this situation has dampened the enthusiasm of SME managers.

The significance and necessity to promote SMEs as well as the basic direction of promotion should be specified so that these enterprises are protected and their nurturing are prompted. They will also help correct the many disadvantages by producing the following effects.

- a) Effects of announcing that the Vietnamese government is intent on promoting SMEs.
- b) Effects of helping the lowest levels of the government and related agencies realize the importance of SME promotion.
- c) Effects of faster realization of SME support measures stipulated in the law.
- d) The significance of serving as the ground for disputing against the policies of other ministries and agencies that might put SMEs at a disadvantage.

In Viet Nam where SMEs have a relatively low social position, the above effects a) and b) among others will have great impacts.

1.3.2 Positioning of the SME Basic Law

The SME Basic Law is intended to promote SMEs' business activities. Their specific business activities should be specified by the Enterprise Law, the SOE law and the Cooperatives Law depending on their forms of operation.

The Vietnamese government plans to prepare a Decree for SMEs by the end of 1999. The Decree will contain the basic policy for SME promotion and major promotion measures, and as such it can be evaluated as demonstrating the Vietnamese government's positive stance toward SME promotion. There are some views that the proclamation of the Decree will make it unnecessary to issue the SME Basic Law. However, the SME Basic Law should be formulated on the basis of the content of the Decree and the results of its application, for the following reasons.

- (1) The Decree now under preparation concerns the measures for SMEs which the Vietnamese government must take for the time being, and not the medium and long-term strategy for SME promotion.
- (2) By making SME promotion measures into law, the government can clarify its stance toward SME promotion and create significant social impacts.

- (3) When SMEs are relatively disadvantaged in other measures taken by the government, the SME Basic Law is more effective than the Decree in correcting those disadvantages.

Nevertheless, in the current Vietnamese situation it will need a long period of time until the establishment of the law. It is desirable, therefore, to take SME promotion measures under the Decree for the time being, and then prepare the SME Basic Law by referring to the problems under the Decree. For the preparation of the SME Basic Law, the following schedule is suggested.

December 1999:	Preparation of the Decree
2000-2001:	Promotion of SME measures under the Decree
2002-2003:	Preparation and deliberation on the SME Basic Law
End of 2003:	Establishment of the SME Basic Law
2008-	Review

1.3.3 An Attitude toward the SME Basic Law

In many countries, their SME Basic laws have been established on the basis of the accumulation of individual policies. In comparison, Viet Nam's Basic Law in question will be established before such individual policies are accumulated. In Japan the issue of SMEs has been raised in the context of correcting the two-tiered structure (SMEs vis-a-vis big companies). In Viet Nam, however, the issue is being raised primarily to reinforce the management foundation of these enterprises and improve the business environment for private enterprises. The law should, therefore, be structured to comply with this situation.

In Viet Nam, it is necessary to share the awareness of promotion of such enterprises, especially private enterprises, and attach greater importance to the ways to improve the business environment for them. Therefore, the law should be based on the necessity of SME promotion and stipulate the basic direction for this promotion and the government's role in this endeavor.

1.3.4 Proposed Structure of the SME Basic Law

(1) Proposed Overall Structure

We propose that the SME Basic Law have the following chapters.

Chapter I General Rules (targets and the scope of SMEs)

Chapter II Upgrading of SME's Management Foundation

Chapter III Correction of Disadvantageous Business Environment

Chapter IV Support for Start-ups

Chapter V Roles of Administrative Agencies and SME Organizations

(2) Concept of Each Chapter

Chapter I General Rules

1) Targets

In order to help Viet Nam achieve its socio-economic development on a stable as well as medium and long-term basis, it is necessary to promote SMEs with strong growth potential and accelerate start-ups of new enterprises. SME promotion is expected not only to upgrade Viet Nam's industrial structure and bring about employment stability, diversified job opportunities and higher living standards, but also to contribute to balanced development of the country through industrial development in rural and farming areas.

Specifically, the policy to promote SMEs should have the following three targets.

- # To solidify SME management foundation to enhance their basic operational strength.
- # To construct the environment for SME business operation and development so that these enterprises can achieve growth and development.
- # To facilitate SME start-ups to expand their business base.

2) Scope of SMEs

Currently SMEs are defined provisionally as having a capital no more than 5 billion dong and a payroll up to 200. This definition seems to suggest a small scale. However, if the two conditions are connected with “or” rather than “and”, the definition would cover virtually all private enterprises in Viet Nam, thus making it possible to support the actually entire private enterprises. The number of employees under this category is about 200 in many ASEAN countries, under 150 in Malaysia, under 200 in Thailand and under 200 in the Philippines.

In order to support a wide range of SMEs in Viet Nam, which are to be responsible for the country’s future economic development, it is advisable to define these enterprises as “having a capital no more than 5 billion dong or a payroll up to 200”.

Even after SMEs have achieved proper development and more than satisfy the above conditions, it is desirable to continue to support the still growth-minded SMEs which, despite their endeavor to upgrade their management foundation, still face the problems peculiar to SMEs. Efforts should be made to entitle them to individual policy measures as much as possible. It is recommendable to define such enterprises by the business laws and decrees which are to be separately established in accordance with those individual policy measures. In the case of Japan, the Small Business Finance Corporation provides loans even to companies which have outgrown the definition of SMEs in the designated industries.

Enterprises within the above-mentioned scope which are eligible for support should be private companies under the New Enterprise Law (limited liability companies, shareholding companies and partnerships), state-owned enterprises specified by the State-owned Enterprise Law and cooperatives designated by the Cooperatives Law. Although some self-employed businesses register their capital under Decision No.66/HDBT, it is advisable not to include them in those companies eligible for support, because support should be provided only to the companies which engage in corporate management and accounting treatment in accordance with their properly established statutes. Promising self-employed businesses may be eligible for support after they become private companies through corporate registration.

Chapter II Upgrading of SME’s Management Foundation

In order for the existing SMEs to gain an independent development capability, they must improve their internal management resources in all aspects including funds, facilities and equipment, technology, business management, and personnel. The government should take measures for management modernization, equipment modernization, technological promotion,

cooperation among SMEs, and personnel training, in order to solidify their management foundation.

Chapter III Correction of Disadvantageous Business Environment

It is very important for SMEs to have a well arranged environment in terms of support from foreign governments and market conditions. It should be specified that SMEs in all operational forms are placed in a fair business environment with big SOEs and foreign-affiliated companies. It should also be specified that when a situation arises in disfavor of SMEs, the competent authorities in charge of these enterprises make a recommendation to correct the situation. It should be specified to correct the disparity that is arising especially in such areas as trade and other business opportunities, land system, fund raising and collection of market information.

Chapter IV Support for Start-ups

It is necessary to increase the absolute number of SMEs in Viet Nam. For this purpose, it should be specified that comprehensive support for start-up is provided. It should be specified that start-up support will be provided in such forms as removal of the difficulties with registration, acceleration of the shift from family enterprises, provision of the information on start-up and registration, and nurturing of entrepreneurs.

Chapter V Roles of Administrative Agencies and SME Organizations

The roles of the government and other organizations in charge of promoting SMEs should be specified.

In the government sector, the functions and roles of the SME Promotion Agency as a policy office, SME Promotion Department of local people's committees and SME support centers must be specified. It should be specified that the SME Promotion Agency has the role of planning and drafting policies, the securing of budget necessary for policy implementation, the execution and supervision of policies, and the undertaking of surveys and data collection for

compiling a white paper on SMEs. The roles of industrial associations, which are currently affiliated with the government, such as VCCI and VICOOPSME should also be specified.

(3) Proposed Contents of Each Chapter

Introduction

a) Background for SME Promotion

In order to help Viet Nam achieve its socio-economic development on a stable as well as medium and long-term basis, it is necessary to promote SMEs with strong growth potential and accelerate start-ups of new enterprises. SME promotion is expected not only to upgrade Viet Nam's industrial structure and bring about employment stability, diversified job opportunities and higher living standards, but also to contribute to balanced development of the country through industrial development in rural and farming areas. Policies intended for SME promotion are executed for this purpose.

b) Purpose of the Establishment of the SME Basic Law

The SME Law aims to clarify the significance and necessity of SME promotion in Viet Nam, medium and long-term development strategy for SME promotion and ways of SME support in Viet Nam as well as the roles of organizations engaged in such support.

Chapter I General Rules

a) Policy Objectives

In order to help SMEs achieve the above-mentioned purpose for SME promotion, the following three policy objectives should be pursued by helping them improve their business execution capability and fully exercise their potentials through the solution of their many problems and preparation of their business environment.

- (1) To improve SME managers' managerial capability in order to enhance their basic operational strength, that is, strength their management foundation.

(2) To construct the management environment that allows SMEs to endeavor in many ways for their own growth and development, that is, to construct the business and growth environment where they can have high business aspiration.

(3) To increase the number of SMEs and help expand their business scope and create new businesses by promoting their start-ups.

b) Scope of SMEs

SMEs for the purpose of this paper should be those which have a capital of less than 5 billion dong and a payroll of less than 200 under the present provisional definition and which are to be established and registered under the Enterprise Law, SOE Law or the Cooperatives Law that are scheduled to be enforced in 2000.

It is important to continue to support even those SMEs which have not satisfy the above-mentioned conditions but still are growth-minded and endeavor to enhance their management foundation. Those companies that are eligible for individual measures should be defined by decrees and laws concerning those measures.

Chapter II Upgrading of SME's Management Foundation

In order for the existing SMEs to gain an independent development capability, they must improve their internal management resources in all aspects including funds, facilities and equipment, technology, business management, and personnel. To help strength their management foundation, the government and related organizations should take the following support measures.

a) Promotion of Management Modernization

SMEs' intention to strengthen their management foundation should be enhanced, and various kinds of support for their efforts should be provided in terms of funds, information and etc. "Management modernization" covers the efforts for equipment modernization, technological promotion, personnel training and cooperative undertakings.

b) Promotion of Equipment Modernization

Various kinds of support in terms of funds and information should be provided to SMEs which endeavor to improve production machines and equipment, safekeeping and transport equipment and facilities and R&D equipment and facilities.

c) Technology Promotion

To promote the upgrading of SME's production technology and product developing technology, support should be provided for technology transfer from foreign-affiliated companies, engineer training and introduction of technological development machines and equipment. Support should also be provided in terms of funds and information for SME's technology development activities, and also for joint research and development projects with universities and research institutions.

d) Personnel Training

For SME's management modernization, it is essential to improve managers' management capability, and upgrade various capabilities in terms of employees' production and processing, production control, product development, operation and sales and corporate accounting. Opportunities for education and training of managers and employees should be provided, and support should be provided to companies which want to receive such education and training.

e) Promotion of Cooperative Business

When effective support can be provided through cooperative business among SMEs in their attempt to solidify their management foundation, such cooperative business should be positively promoted. Support should be provided in such areas as joint production, joint warehousing, joint experimental facilities, joint training facilities, joint sales facilities, joint product development, and production technology development.

Chapter III Correction of Disadvantageous Business Environment

a) SMEs in all operational forms should be placed in an equal business environment with big SOEs and foreign-affiliated companies.

b) When SMEs are disadvantaged, without proper reasons, against state-owned enterprises and big companies, the government should take corrective measures.

c) Fair Business Opportunities

SMEs should be given fair business opportunities compared with those for big companies in undertaking the following businesses.

(1) Trade business (export and import)

Consideration should be given so that SMEs do not receive unfair conditions in such matters as export and import approval, allocation of export and import quotas, imposition of export and import tariffs, availability of overseas market information and availability of customer information.

(2) Procurement by the government

When the government procures materials and services from enterprises, consideration should be given so that SMEs are not subject unfair conditions and that they can trade with the government under fair competitive conditions.

(3) Procurement by state-owned enterprises

When SOEs procure materials and services from other enterprises, consideration should be given so that SMEs do not receive unfair conditions and that they can trade with SOEs under fair competitive conditions.

(4) Tie-up with, and procurement by, foreign-affiliated companies

When foreign-affiliated companies tie up with domestic enterprises, or when they purchase materials and services from domestic companies, consideration should be given so that SMEs are not subject to unfair conditions and that they can tie up and trade under fair competitive conditions.

d) Fair Opportunities for Procuring Management Resources

When a situation arises in which SMEs are noticeably disadvantaged compared with big companies in securing the following management resources, measures should be taken to rectify such disadvantages.

(1) Procurement of factory site

When SMEs attempt to acquire industrial land necessary for the continuation and expansion of their operations, the government and related organizations should support such acquisition in various ways and take measures for them to achieve stable continuation and expansion of their businesses.

(2) Use of the Support System

When SMEs use various support systems necessary for the continuation and expansion of their operations, the government and related organizations should eliminate possible factors that

may hamper such use and take measures so that SMEs can achieve stable business continuation and expansion by using such support systems.

(3) Fund Raising

When SMEs raise funds for operation and equipment investment that are necessary for business continuation and expansion, the government and related organizations should take support measures by establishing a system for receiving loans from the Small Business Finance Corporation and a credit guarantee system so that SMEs can smoothly raise necessary funds. Venture capital should also be established to facilitate direct finance to enterprises.

(4) Availability of Information

When SMEs want to obtain information on the market, technology, management know-how, personnel and policies, which are necessary for their business continuation and expansion, the government and related organizations should support SMEs in various ways so that they can ensure stable continuation and expansion of their businesses.

(5) Employee Retaining and Training

When there is a situation in which SMEs are noticeably disadvantaged in retaining and training employees which are necessary for their business continuation and expansion, the government and related organizations should support them in various ways so that SMEs can ensure stable continuation and expansion of their businesses.

Chapter IV Support for Start-up

a) Overall Support for Business Founding (Start-up)

To increase the number of newly registered SMEs, it is necessary to actively support the entrepreneurs who engage in start-up (business founding) activity. For this purpose, the government and related organizations should take the following measures.

b) Removal of Hindrances to Business Founding (Start-up)

To simplify the procedures that may hinder the entrepreneurs' start-up(founding) and provide necessary support for securing necessary management resources including funds and technology.

c) Provision of Information regarding Start-up (Founding)

To provide various kinds of information necessary for entrepreneurs' start-up, reduce their burden at the time of start-up (founding) and facilitate access to various support organizations.

d) Promotion of Entrepreneur Training

To provide knowledge and information on business founding (start-up) activity to those who aspire to become entrepreneurs or who are interested in business founding (start-up) activity.

e) Overall Support for Enterprises immediately after their Start-up.

To give consideration so that the enterprises which have just started up can smoothly secure necessary funds, technology, information and production facilities and achieve stable development and growth.

Chapter V Roles of Administrative Agencies and SME Organizations

a) Establishment of SME Promotion Agency

To comprehensively and strategically implement SME policies, the government should establish the SME Promotion Agency.

The SME Promotion Agency should engage in planning SME promotion measures, surveys and analysis regarding SMEs, and SME support policy promotion. Policy planning will be made on the basis of examination by the Committee on SME Policy to be established within the SME Promotion Agency. The planned policy will be promoted in cooperation with related administrative agencies. The results of the surveys and analysis will be made available for SME policy planning and published as an SME white paper. When there is a possibility that SMEs are disadvantaged in the course of the measures taken by other ministries, recommendations should be made for the correction of the possibility.

b) Establishment of the Committee on SME Policy

In order to deliberate the SME policies, the Committee on SME Policy should be established within the SME Promotion Agency. The Committee on SME Policy will be composed of related ministry and agency officials, representatives of local people's committees, government-affiliated industrial associations and private sector industrial associations, and scholars.

The Committee on SME Policy should deliberate on the desired SME policies that are intended to solve problems with SME promotion. Based on the results of the deliberation, the SME Promotion Agency should implement policies.

c) Establishment of Department of SME Promotion within Local People's Committees

As a department specialized in SME promotion, the Department of SME Promotion (DOSMEP) should be established within local people's committees. As a central body that executes SME policies in local areas, the DOSMEP will engage in a one-stop type provision of information, support for cooperatives, provision of information to SMEs, and promotion of support services peculiar to localities (industrial parks, invitation of factories, and public experiment stations, etc.).

When it is difficult to establish the DOSMEP because of the economic scale of the locality, this function will be undertaken by the existing departments such as the Planning and Investment Department.

d) Establishment of the SME Support Center

As a comprehensive support facility for SMEs, an SME Support Center should be established. The Center will provide comprehensive support services, including provision of information, guidance and diagnosis, personnel training, trading intermediation, and technological support.

e) Roles of Non-Government Organizations

The SME support functions of government-affiliated industrial associations such as VCCI and VICOOPSME should be reinforced, and SME promotion should be undertaken through cooperation and tie-up with the SME Support Agency, the DOSMEP of the people's committees, and the SME Support Center.

f) Roles of Industrial Associations

The UAIC and industrial associations, which are private sector organizations, should provide various kinds of support to SMEs which are their members, and endeavor to solve problems common to their industries. They should also propose to the government as to the ways to cope with the problems and challenges that face private enterprises.

The government should support the establishment of industrial associations, and provide necessary support to the UAIC and other industrial associations for their activities.

g) Roles of Other Organizations

Organizations which are involved in SME promotion, such as financial institutions, universities and social associations, should engage in SME promotion through cooperation and tie-up with the SME Promotion Agency, the DOSMEP of the people's committees, and the SME Support Center.

2. ORGANIZATION

2. Organization

2.1 Present State of SME Promotion Organizations

2.1.1 Present State of SME Promotion Activities by Organizations

Many organizations have already been engaged in SME promotion in Viet Nam. The activities of main organizations are outlined below.

(1) Central Government Bodies

Some ministries and agencies are engaged in SME promotion, including the Ministry of Planning & Investment (MPI), the Ministry of Science Technology & Environment (MOSTE) and the Ministry of Labor, War Invalids and Social Affairs (MOLISA). The STAMEQ, which was established by the MOSTE, and The Viet Nam Trade Promotion Commission (VIETRADE), which was set up in late 1998 by the Ministry of Trade (MOT), also have a string interest in SME promotion.

(2) Governmental Agencies

SME promotion is also being prompted by government-affiliated industrial associations, such as the Viet Nam Chamber of Commerce & Trade (VCCI) and the Central Council of Cooperative Alliance and Small & Medium Enterprises of Viet Nam (VICOOPSME), which are called “non-government bodies” in Viet Nam. The VCCI, with the SME Promotion Center (SME-PC) within itself, is providing information on SMEs and offering personnel training. The VICOOPSME is also providing support to SMEs mainly in the form of personnel trading, through its sub-organization, the Non-state Economic Development Center (NEDCEN).

(3) Local Governments (People’s Committees)

SME promotion by local governments is undertaken mainly by their Department of Planning & Investment (DPI). Different provinces have different degrees of interest in SME promotion. For instance, Dong Nai Province has the Service of Planning & Investment (SPI), which shows an attitude of providing services by setting up a hot line. However, the People’s Committees of many provinces show little interest in SME promotion.

(4) Private Sector Organizations

As a private sector industrial association, the Union Association of Industry and Commerce (UAIC) is established in Hanoi and Ho Chi Minh City. The UAIC in Ho Chi Minh

City is very active, and industrial associations under its umbrella are also active in SME promotion.

(5) Universities

Universities are having a growing interest in SME promotion. Universities specialized in economics and business management are offering consultation to SMEs. In many cases, however, their consultation does not go further than matters on taxes. Some universities of technology offer technological support, but due to outdated facilities and equipment and the lack of experience, the level of services remains low.

2.1.2 Present State of SME Promotion Bodies by Functions

The organizations involved in SME promotion in Viet Nam and their functions are summarized in Table 2-1. These functions have the following characteristics.

(1) Policy Promotion Function

Many ministries and agencies, including the MPI and the MOI have the policy planning functions. However, it is only a part of the functions of those ministries and agencies, and there are no bodies that are engaged in policy planning from systematic and the trans-ministerial perspectives. The attitude toward researches and statistics among ministries are inadequate, and it is necessary to have some body or organization that prepare basic researches and statistics regarding SMEs.

(2) Guidance and Diagnosis Function

This function is being performed by the VCCI's sub-organization, SMEPC, and the Institute for Machinery and Instrument (IMI). But it is inadequate in terms of both quantity and quality. It is desirable to have a project for guidance and diagnosis that utilizes nationwide networks of these organizations as will be touched on later.

(3) Personnel Training Function

A number of personnel training programs, including those of the SMEPC, which is affiliated to the VCCI, and the NEDCEN, which is affiliated to the VICOOPSME, have been carried out. Manager training has been implemented by many organizations, while training of technical experts remains inadequate.

(4) Technology Development Function

The MOSTE and its affiliate, STAMEQ, and the IMI have the function of technology development. However, there are few cases of technology development support really useful to SMEs, and there should be an organization that can implement technology development support from the viewpoint of SMEs.

(5) Fund Raising Support Function

Some financial institutions provide loans to SMEs, but generally the fund provision function for SMEs is very weak. Loans from the existing financial institutions should be increased, and there should be a financial support organization specialized in SMEs.

(6) Subcontractor Introduction Function

The VCCI engages in the introduction of subcontractors, but the effect of this service is not sufficient. It is desirable to establish an organization engaged in the introduction of subcontractors.

(7) Trade and Overseas Expansion Support Function

Some organizations, including the VCCI and the MOT (VIETRADE), are engaged in export support. It is necessary to improve support for SMEs by reinforcing the function of and cooperation with these two organizations.

(8) Industrial Site Provision Function

Currently there are few cases of support concerning industrial site. It is necessary to specify the section in charge and strengthen its function.

(9) Information Provision Function

Information is being provided to SMEs mainly through the VCCI, VICOOPSME and NEDCEN, while the provision of policy information remains inadequate. Only the agencies which provide support services disclose their own information. As some organizations provide the same kind of support services, it is advisable for related organizations to improve their cooperation and provide one-stop type information in order to make it easier for SMEs to obtain the kind of information they need.

Technological information is being provided chiefly by the MOSTE and corporate information largely by the VCCI and the VICOOPSME. It is important to arrange a system for SMEs to utilize the information with ease, and to provide the kind of information SMEs need.

Table 2-1 SME Promotion Organizations in Viet Nam and their Functions

	Name of Organization (: Specialized SME organizations)	Policy Promotion		Guidance and Diagnosis	Personnel Training			Technology Development						Fund Raising Support			Subcontractor Introduction	Trade and Overseas		Industrial Site			Provision of Information			
		Policy Planning	Research and Statistics		Managers	Technicians	Skilled Workers	R&D	Test and Evaluation	Technical Guidance	Joint Research	Technological Exchange	Research Subsidies	Loans	Credit Guaranty	Investment		Trade Support	Overseas Expansion Support	SME Industrial Park	Factory Apartments	Incubators	Policy Support	Technology Information	Market Information	Corporate Information
Government	MPI MOI MOSTE STAMEQ SMEDEC MOF MOT MOET MOLISA GSO														Plan		SOE	SOE								
Government-affiliated Organizations	VCCI SMEPC VICOOPSME NEDCEN IMI																			Plan						
Financial Institutions	State Bank State Commercial Bank Private Commercial Bank People's Credit Fund												() ()													
Local Governments	People's Committee Dept. of Planning and Investment Dept. of Industry Vocational School Hanoi Cooperative Union																									
Private-sector Organizations	UAIC Association														Plan			HN								
University	Universities (including those belonging to ministries)			HCM																						
Private Sector	Private company cooperation business																									

Source: JICA Study Team

2.2 Problems of SME Promotion Organizations

SME promotion conducted by the foregoing organizations face the following problems.

(1) Absence of A Comprehensive Promotion Organization

Although a number of organizations are involved in SME promotion, there is little strategic and comprehensive preparation of SME promotion policies, nor is there coordination between policies followed by these organizations. There should be an organization that truly understands SMEs' position in comprehensively implementing SME support measures.

(2) Inadequate Cooperation between Organizations

SME support by the ministries and agencies is being provided only by their certain departments, and little consensus has been formed among these organizations as a whole as to the importance of SME policies. With the exception of a special case, such as UNIDO's SMELINK project, the cooperation among these organizations is very weak. There should be, therefore, a body which strengthens and coordinates mutual cooperation among such organizations. Although there are many organizations, SMEs cannot receive necessary services, because of the lack of the access and the means to receive necessary support services.

Some government-affiliated organizations, such as the VCCI and the VICOOPSME, have begun SME support by utilizing the SMEPC and the NEDCEN, and they seem to be more enthusiastic than the government itself. Nevertheless, these two organizations work separately without mutual cooperation at all.

(3) Discrepancies among Localities

As the VICOOPSME was originally established as an organization designed for cooperatives, some of its local chapters are very enthusiastic about SME, while others show no interest at all.

There are also discrepancies among local people's committees about SME support. For instance, the people's committee in the Dong Nai province has a very positive interest in SME support, but not a few committees show little interest.

(4) Uncertain Continuity of the Project

The government, government-affiliated industrial associations and private-sector corporate organizations all receive various forms of support from international organizations such as the UNIDO. The activities of these associations and organizations should be evaluated as having formed, for the first time, the bases for close cooperation with SMEs at the lowest levels, and there have been increasing opportunities to collect information on lowest-level needs.

However, if overseas support stops, their support services are most likely to discontinue. How to ensure the continuity of such projects is now an important problem.

In proceeding with SME promotion, it is undoubtedly important to pay attention to the past efforts of these organizations, take into consideration the networks built up by them, and structure a continuing system for these efforts. What is more important is, however, to establish an organization that has a great enthusiasm for SME promotion and leads other organizations in implementing overall SME promotion measures.

2.3 Ideal Form of SME Promotion Organization

An ideal form of SME promotion organization in Viet Nam was examined in line with the following principles.

- To give importance to the past efforts made by the existing organizations.
- To establish a body specialized in SME promotion within the central government.
- To minimize the central government's direct involvement, and to make the best of the existing external resources.
- To establish a system for succeeding ODA projects of overseas donors as long as possible even when they terminate.
- To pay due attention not only to promotional systems in cities such as Hanoi and Ho Chi Minh City but also to those in local areas.
- To establish a friendly advisor's office where SMEs can seek advice freely.

On the basis of these policies, three specialized bodies should be established.

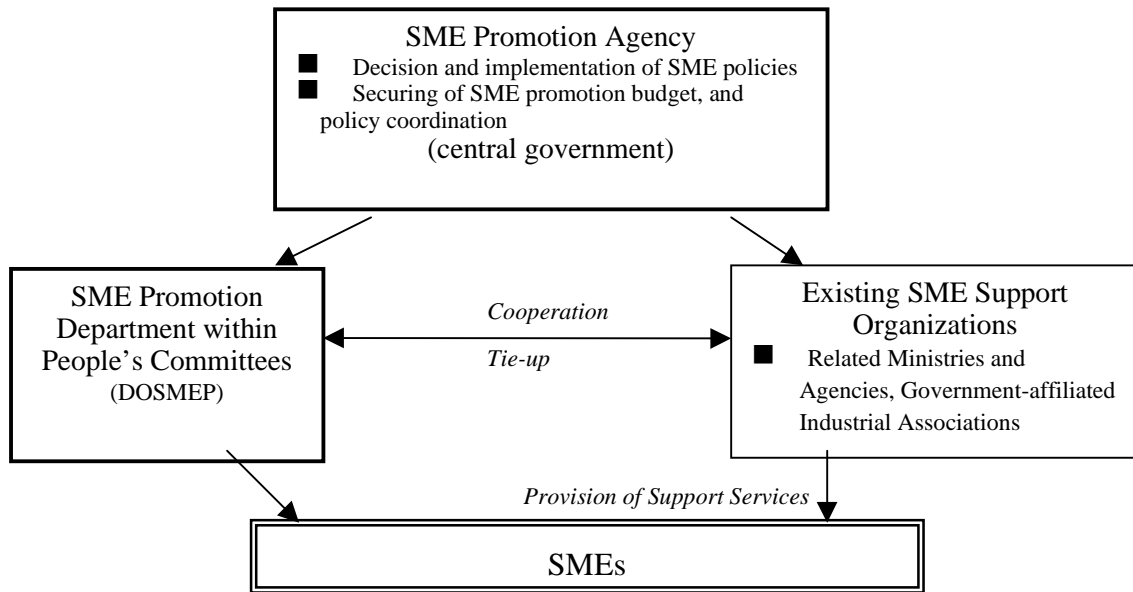
- 1 . An SME promotion office should be established as a policy office within the central government.
- 2 . A department specialized in SME promotion should be established within the people's committee.
- 3 . An SME Support Center should be established as a base for providing services to SMEs in Hanoi, Ho Chi Minh City and other cities.

Other organizations which have endeavored to promote SMEs should strengthen their support service functions, and improve their SME promotion systems by cooperating with these three organizations. The contents of these new organizations and the ways for the existing organizations to reinforce their functions will be explained later.

A system for one-stop information provision will also be established by using these new and existing organizations.

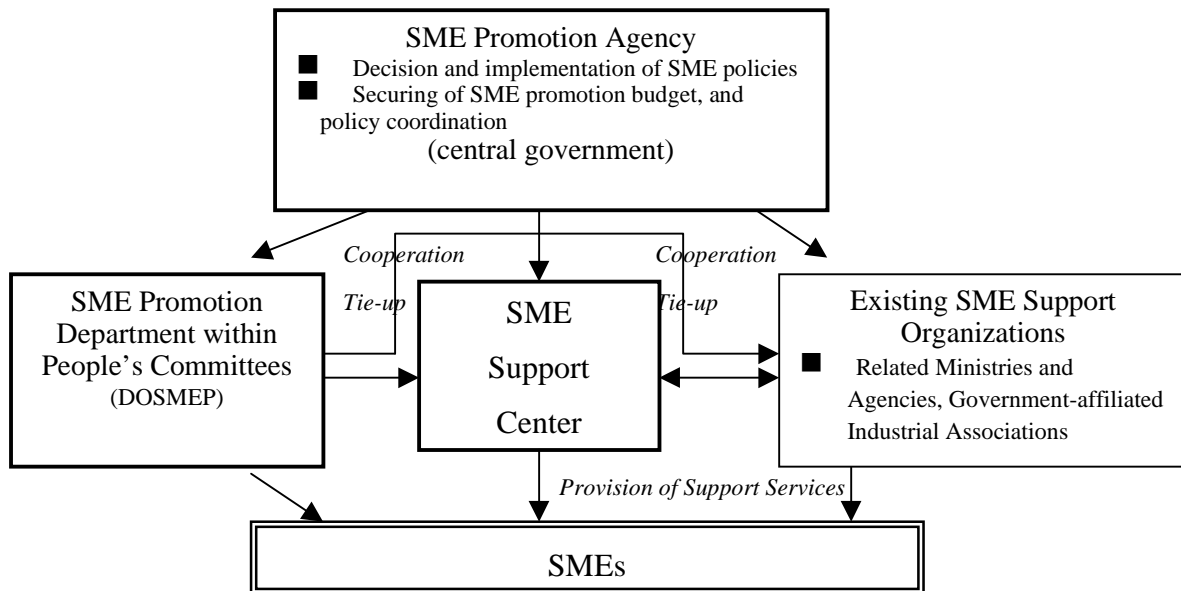
Since it takes time to establish an SME Promotion Organization, the existing organizations should be utilized as much as possible for the time being (in the short term). In the medium and long term, an organization for SME promotion will be established to ensure greater effects through cooperation with those existing organizations.

Figure 2-1 SME Promotion System (Temporary)



Source: JICA Study Team

Figure 2-2 SME Promotion System (After 2002)



Source: JICA Study Team

2.4 An Outline of SME Promotion Agencies to be Newly Created

The following is an outline of the department of the central government specializing in SME promotion, the departments of SME promotion in local People's Committees and SME Promotion Centers. These are to be created based on the basic policy described so far.

2.4.1 The Creation of a Department of the Central Government Specializing in SME Promotion

(1) Format of the department

It is necessary to establish in the central government a department specializing in the promotion of SMEs, makes writes plans and promotes SME promotion policies from a comprehensive and strategic perspective. The department can take one of the following formats.

- (1) Establish it in an existing government ministry or agency.
- (2) Establish it as a decision-making council that determines measures across ministry or agency boundaries.
- (3) Establish it as a general department that implements inter-ministerial or inter-agency measures

The establishment of the department within an existing government ministry or agency as proposed in (1) is relatively simple in terms of procedure, because it will be created within an existing organization. However, it has the following shortcomings.

- As it will belong to a particular ministry or agency, it will be difficult for it to tackle problems that cut across more than one ministry or agency.
- A cause for concern is to what extent that particular ministry or agency places importance on SME promotion.
- Because of the existing plan to reorganize government ministries and agencies, it will be difficult to see which ministry or agency will be the best organization to create the new department.

The council proposed in (2) is primarily to be managed by a committee that has the power to determine policies, as the Central Committee for Enterprises Reform, which is already in existence. The Council will comprise representatives of the central government ministries and agencies, and private enterprises, and will be supported by a secretariat, which will have a staff of about 10 persons. Policies adopted by the council are to be implemented by various

ministries and agencies and other organizations that provide services. This format would be particularly appropriate for Viet Nam's political and administrative structures, because it would

determine policies based on a consensus. However, it has the following shortcomings.

- As decision making will take time, it will be difficult for the council to respond to a situation promptly.
- It would be difficult to respond flexibly to changes in the environment that surrounds SMEs.
- As it will not have the personnel for implementation of policies, it may not be able to perform adequately in getting budget allocations, coordinating various ministries and agencies or making assessment after the fact. This is very likely to cause problems in the continuity and implementability of policies.

SME policies should not be rigid. The substance of the policies should be improved over time, while taking into account the stages of development of SMEs as well as economic conditions. In this sense, it is impossible to say that this is an appropriate format.

The third format (General Department) is based on the same philosophy as the Small Business Administration in the United States. Its organization cuts across ministries and agencies, and it carries out functions ranging from policy formulation through implementation. This format renders itself very well to implementing measures that cut across various ministries and agencies, and therefore, can promote effective measures. It seems that this is the desirable format.

(2) The creation of SME Promotion Agency (SMEPA)

1) Functions and roles

SMEPA should have diverse functions, including the following:

- Making SME policies
- Analyses and publication (via a White Paper) of the real situations in which SMEs find themselves—Gathering opinions and requests from SME owners and managers and offering data bases.
- Gathering and releasing market information
- Support for human resources development
- Providing information on policies, etc.
- Raising issues with respect to policies in other areas (land, external trade, infrastructure, the accounting system, etc.)

- Management of councils and committees—identifying issues and making policy recommendations looking to the future.

2) Organizational structure

Create a committee on SME policy within SMEPA. The committee will be comprised of representatives of various ministries and agencies, government-affiliated industry groups, such as VCCI and NEDCEN, local People’s Committees, privately-owned SME groups, and privately-owned SMEs as well as scholars on SME policies. The Committee will deliberate problems relating to the promotion of SMEs and what is the desirable SME policy to resolve such problems.

The Committee will have its subordinate departments such as the departments of General Affairs and Planning, Research and Policy Promotion, Finance and Human Resources Development, and Guidance. Each of these departments will engage in the following activities.

General Affairs and Planning Dept.:

- Manages projects undertaken by the SMEPA.
- Gets budget allocation for and manages budgets of SMEPA.
- Engages in coordination with other ministries and agencies.
- Negotiates with overseas donors.

Research and Policy Promotion Dept.:

- Studies the real situation in which SMEs find themselves.
- Writes SME White Paper.
- Makes SME policy.
- Provides information on SME policy.
- Builds a system for linkage with agencies that implement policies.
- Supports activities of trade associations.

Finance and Human Resources Development Dept.:

- Manages financing for SMEs
- Drafts and promotes human resources development policy.

Guidance Dept.:

- Writes and promotes policy for management guidance.
- Writes and promotes policy for technological guidance.

3) Scale

The size of the organization should be around 40-50 people, or around 10 persons in each department, in addition to the members of the Committee on SME Policy.

4) Schedule

- SMEPA should be created in 2000.
- At the initial stage, the Agency's core activities will be the management of the Committee on SME Policy and policy discussion within the Research and Planning Department. It will increase its staff, as the functions of the relevant agencies are enhanced.

5) Roles of SMEPA and its relationship with relevant ministries and agencies

Figures 2-3 and 2-4 summarize SMEPA's relationship with relevant ministries and agencies. SMEPA will, in cooperation with the existing ministries and agencies and those that will be created in the future, provide support to SMEs in many ways. The cooperation here includes cooperation to projects, support for activities and commissioning of the implementation of measures.

Figure 2-3 Relationship between SMEPA (Provisional Name) and Relevant Ministries and Agencies (Short-Term)

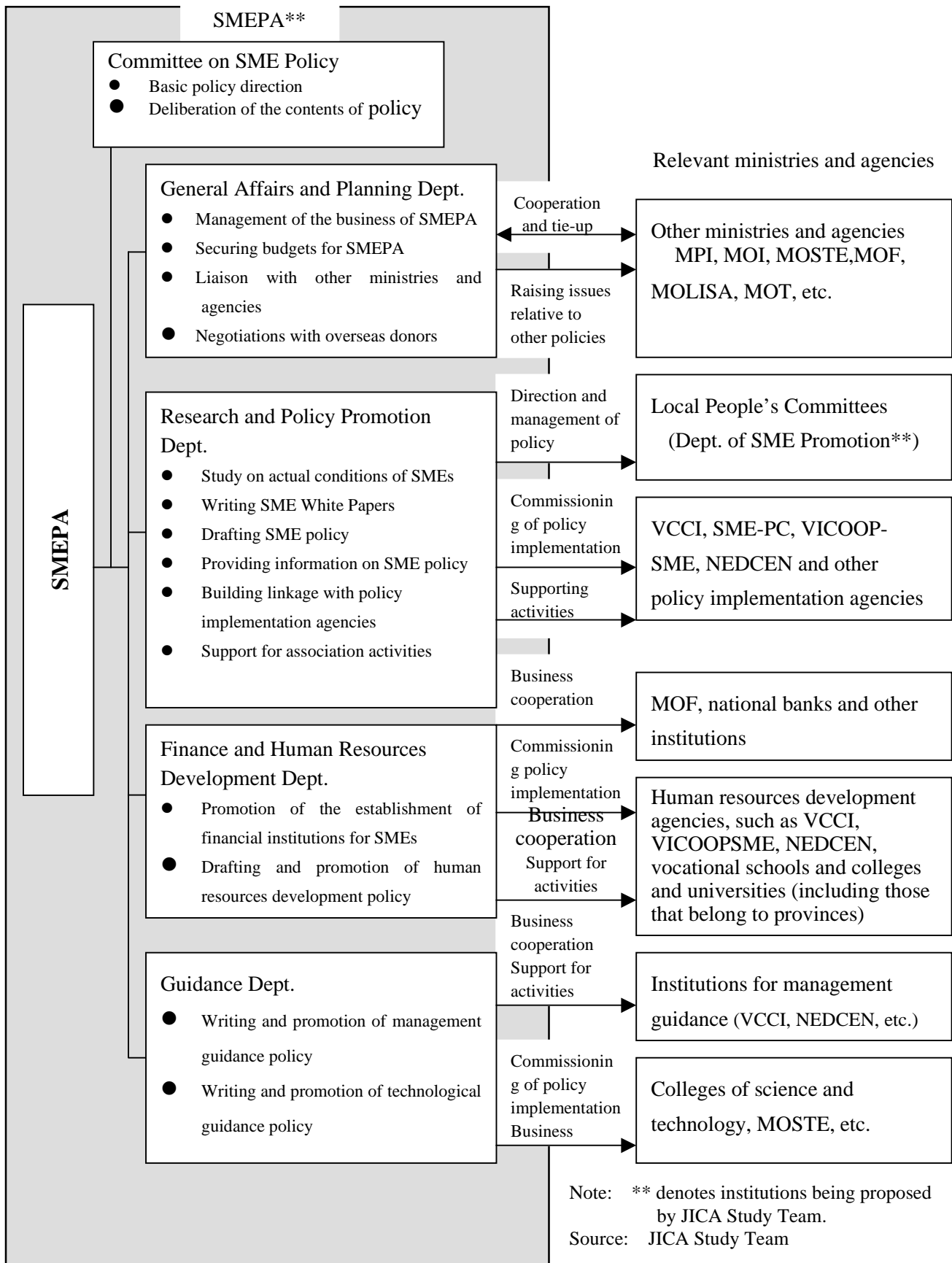
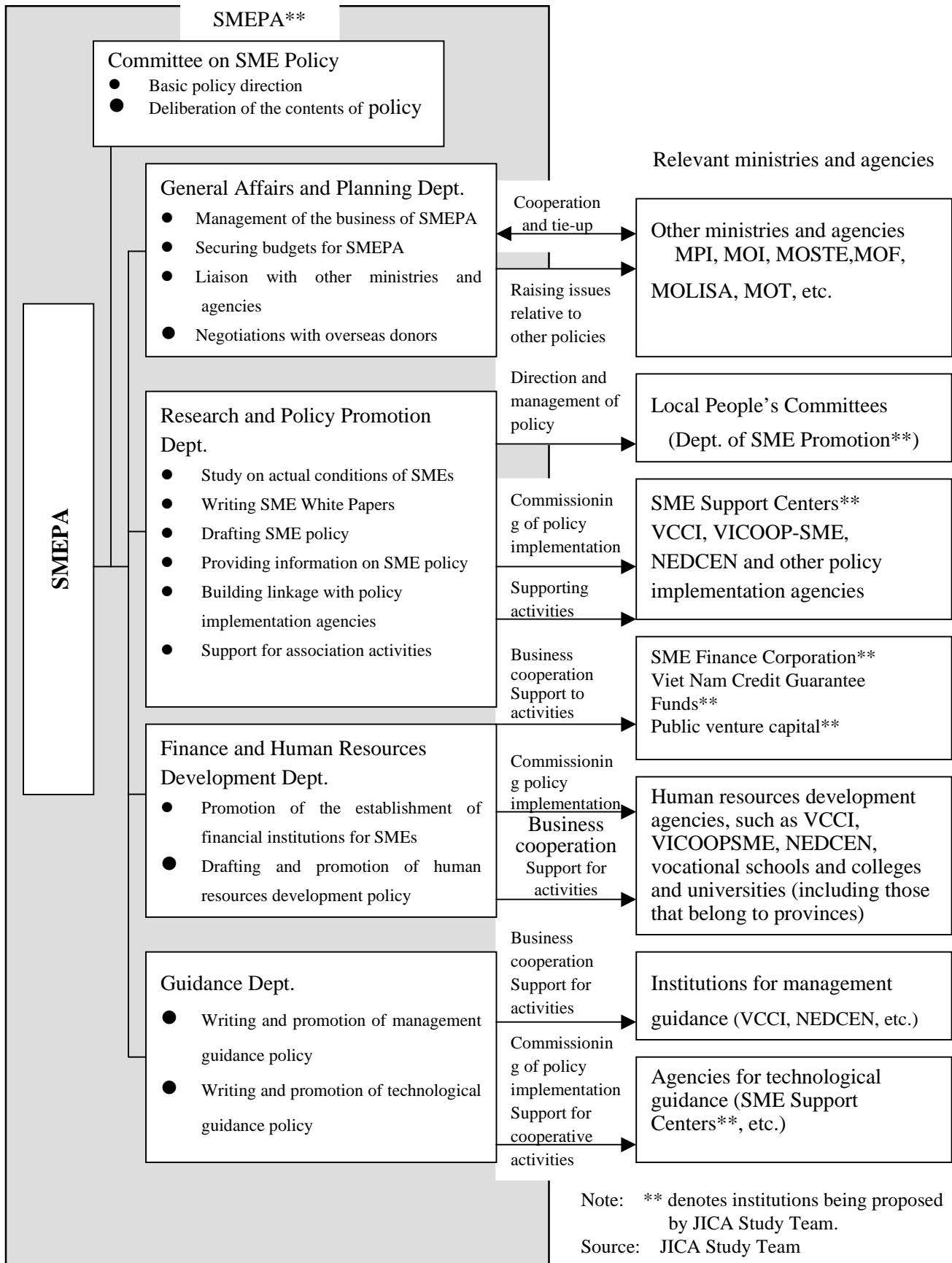


Figure 2-4 Roles of SMEPA (Provisional Name) and Its Relationship with Relevant Ministries and Agencies (Medium- and Long-Term)



2.4.2 Creation of the Department of SME Promotion (DOSMEP) in Local People's Committees

The Department of SME Promotion (DOSMEP), which will specialize in the development and promotion of SMEs, will be set up within local Peoples Committees. This department will be a separate body from the Enterprise Registration Department and will have the following functions.

- Provides one-stop information services to SMEs
- Supports SME unions
- Provides information—especially information on policy
- Hears complaints and provides consulting services
- Grasps the actual situation of SMEs and brings issues to the attention of the central government
- Provides its own services (industrial parks, bringing in businesses, public testing and research centers, etc.)

Initially, DOSMEPs will be established in such large cities as Hanoi and Ho Chi Minh City and in provinces where there is a relatively large concentration of SMEs, such as Hai Phong and Dong Nai. In the provinces where there is no large concentration of SMEs, the Department of Planning and Investment will carry out the work intended for DOSMEPs for the time being. It is also desirable to establish DOSMEPs in the People's Committees at the city level, if there is a large concentration of SMEs.

Table 2-2 DOSMEP Concept at Each Stage of Development

	Initial stage (Up to 2005)	Middle stage (2006-2010)	Late stage (After 2011)
Where DOSMEP will be established	Hanoi and Ho Chi Minh City before 2002. Provinces where there are major hub cities by 2005.	In approximately 30 provinces with relatively strong economies (out of the total 61 provinces). In districts within Hanoi and Ho Chi Minh City and in People's Committees in major cities (approx. 20).	In all 61 provinces. Also in People's Committees of major cities (approx. 10).
Cumulative total of DOSMEP	Approx. 11.	Approx. 50.	Approx. 90

Source: JICA Study Team.

2.4.3 Creation of SME Support Centers (SMESCs)

The SME Support Centers (SMESCs) will be set up as a comprehensive supporting facility for SMEs. The Centers will have the following five functions: Provide information, guidance and diagnosis, human resources development support, serve as middlemen for business transactions, and provide technological support. As it would be better for them to provide services to SMEs in large areas, they should be placed directly under the SME Promotion Agency .

(1) Functions

1) Provide information

They will refer SMEs to one-stop advisories, to which SMEs can access to resolve their managerial problems, and provide information on policy, markets, and foreign countries. In order to gather such information, it is essential for them to obtain cooperation from related ministries and agencies, so that they can utilize the existing information access routes of MPI and other ministries and agencies.

2) Guidance and diagnosis

They will provide guidance and diagnostic services to SMEs both in the areas of management and technology.

3) Human resources development

They will carry out various human resources development projects, including seminars on various subjects.

4) Mediating business transactions (Center for Promotion of SI Transactions)

Some of SMESCs will introduce possible trading partners and provide information on foreign affiliated companies to businesses in supporting industries, so that they can be matched with assemblers. (For details, please refer to “SI-Technology Promotion”)

5) Technological support (Center for Technical Support)

Some of SMESCs provide businesses in supporting industries with testing and research services. (For details, see “Technology/SI Promotion”)

Table 2-3 Functions of SMESCs

Functions	Contents
1. Offer information	-Refer SMEs to one-stop advisories to which they can access to solve managerial problems. -Information on policy -Market information -Overseas information, etc.
2. Guidance and diagnosis	-Managerial guidance and diagnosis -Technological guidance and diagnosis
3. Human resources development	-Hold various seminars -Rent training facilities
4. Mediate business (Center for Promotion of SI Transactions)	-Offer information on businesses in supporting industries. -Matching service
5. Technological support (Center for Technical Support)	-Coordinate joint research -Offer testing and research services to supporting industries (SIs).

Source: JICA Study Team.

(2) Schedule

First, two SMESCs, one in Hanoi and the other in Ho Chi Minh City, are to be established by 2002 to provide services to SMEs in the northern and southern parts of the country, respectively.

By 2005, SMESCs are to be established in mid-sized cities like Da Nang, Hai Phong and Can Tho. It is hoped that they will be established in other regions from 2006 and onward, but these regions should establish SMESCs to serve more than one province, so that their facilities and services can be shared.

Table 2-4 The Establishment of SMESCs at Each Stage

	Initial stage (Up to 2005)	Middle stage (2006-2010)	Late stage (2011 and onward)
Cities or regions	Establish in Hanoi and Ho Chi Minh City by 2002. Establish in major hub cities.	Establish in hub cities.	Establish in provinces with relatively strong economies out of the total 61 provinces. Each center to serve more than one province.
Cumulative total	Approx. 11 (Approx. 3 with Center for Technical Support)	Approx. 30. (Approx. 10 with Center for Technical Support)	Approx. 45 (Approx. 20 with Center for Technical Support)

Source: JICA Study Team.

2.5 Enhancement of SME Promotion Functions of Existing Ministries and Agencies

In addition to creating the organizations proposed in the previous section, it is necessary to continue to enhance and strengthen SME promotion activities of the existing organizations and agencies.

(1) The government

In addition to continuing to take aggressive actions to promote SMEs, the existing ministries and agencies, including the Ministry of Planning and Investment (MPI), the Ministry of Industry (MOI), the Ministry of Science, Technology and Environment (MOSTE), and the Ministry of Trade (MOT), should cooperate and work closely with the SME Promotion Agency (SMEPA) which will be newly created. It would be necessary for the following ministries to be particularly active in the following areas in promoting SMEs: The MOI in the area of SOE reforms in the industrial field; MOSTE in the area of providing support for technology development; and MOT in the area of supporting international trade.

(2) Government-affiliated industrial associations

VCCI, VICOOPSME and other government-affiliated industrial associations should enhance their support to SMEs. SMEP, which comes under VCCI, should enhance its information services and human resources development services, while VCCI should enhance its export promotion functions. NEDCEN, which is a sub-organization of VICOOPSME, should enhance its projects for human resources development. VCCI and NEDCEN should coordinate their human resources development projects in terms of themes, scheduling, region, etc.

Both VCCI and VICOOPSME (NEDCEN) should create systems that will offer information to SMEs as friendly supporters. Both of these organizations should establish one-stop advisory desks in their branches. Details of such one-stop advisory desks will be discussed in the following section.

(3) Financial institutions

Financial support for the promotion of SMEs should be enhanced by creating a SME financing public corporation, an organization to provide credit guarantee and publicly-funded venture capital. The existing financial institutions should also enhance their credit extension business to SMEs while improving the collateral system.

(4) Private economic organizations

Activities of purely private organizations, such as the UAIC and various trade associations, should be supported in terms of funding, information, facilities and affiliation. It is important to broaden the scope of their activities and enhance their linkage with other organizations that support SMEs, while improving the procedures for creating new trade associations.

The establishment of business cooperatives should be approved when SMEs put their forces together to own facilities, engage in marketing or research and development activities. These cooperatives should be objects of various supporting measures and their activities should be supported in many ways. The organization of such cooperatives and the direction of supports to be provided will be discussed in detail in the next section.

(5) Colleges and universities

In addition to supporting SMEs in the area of technology through joint research and technology exchanges, colleges and universities should contribute to SME promotion by providing education and training to managers and engineers or other educational opportunities to leaders. Although they are providing various support to SMEs, there are such problems as outdated testing and research equipment and facilities in the engineering colleges and the absence of well-developed curriculums for management education in schools specializing in economics and other disciplines. Therefore, enhancement of the functions of colleges and universities is essential.

Table 2-5 shows future goals for organizations for SME promotion in Viet Nam and their functions. The organizations to be newly created and those which should add or enhance their functions are indicated by shading.

Table 2-5 Organations for SME Promotion in Viet Nam and their Functions (Long-Term Goals)

	Name of Organization (: Specialized SME organizations)	Policy Promotion		Guidance and Diagnosis	Personnel Training			Technology Development					Fund Raising Support			Subcontractor Introduction	Trade and Overseas		Industrial Site			Provision of Information							
		Policy Planning	Research and Statistics		Managers	Technicians	Skilled Workers	R&D	Test and Evaluation	Technical Guidance	Joint Research	Technological Exchange	Research Subsidies	Loans	Credit Guaranty		Investment	Trade Support	Overseas Expansion Support	SME Industrial park	Factory Apartments	Incubators	Policy Support	Technology Information	Market Information	Corporate Information			
Government	SME Promotion Agency																												
	MPI																												
	MOI																												
	MOSTE																												
	STAMEQ																												
	SMEDEC																												
	MOF																												
	MOT (VIETRADE)																												
MOET																													
MOL SA																													
GSO																													
Government-affiliated Organizations	SME Support Center																												
	VCCI																												
	SMEPC																												
	VICOOPSME																												
	NEDCEN																												
IMI																													
Financial Institutions	State Bank																												
	State Commercial Bank																												
	Private Commercial Bank																												
	People's Credit Fund																												
	Small Business Finance Corporation																												
Viet Nam Credit Guarantee Fund																													
venture capital funded by government																													
Local Governments	People's Committee																												
	Dept. of SME promotion																												
	Vocational School																												
Cooperative Union																													
Private-sector Organizations	UAIC																												
	Association																												
University	Universities																												
Private Sector	Private company cooperation business																												

2.6 Support for Business Associations and Business Cooperatives

When individual SMEs find it difficult to achieve growth on their own because of a lack of solid management resources, they can join forces to complement one another's weaknesses and improve efficiency. The increase in opportunities to exchange information and opinions among SMEs makes it possible for managers to exchange information and get insight, which helps them solve their own problems or promote further growth of their businesses. From this view point, it is necessary to support the activities of business associations and those of business cooperatives, in which a number of SMEs gather forces for particular objectives.

2.6.1 Support for Business Association Activities

In Viet Nam, there are UAICs, which are purely private unions, in Hanoi and Ho Chi Minh City. These unions have a number of business associations under their umbrellas. Some of these business associations, namely those in food processing, shoe and leather products and garment, are relatively active, but others are stagnating and still some others are slow to establish themselves.

Many of these organizations cannot undertake all the activities they wish to carry out because of a lack of funds. This keeps new members away, which in turn results in the absence of increase in membership fees. This is a vicious circle. Therefore, it is necessary to support the activities of these associations in terms of funding, information, facilities and tie-up, so that SMEs which are members of the association can benefit from their participation.

We suggest the following supporting measures be taken for the activities of business associations.

Business Association Activities Needing Support

- Formulating a vision for future growth of the industry—Partial financial assistance for formulating such a vision.
- Gathering and dissemination of information important for the industry—Partial financial assistance
- Discussion of means of resolving problems common to the industry—Provision of information and partial financial assistance
- Helping transactions with subcontractors—Provision of information and partial financial assistance
- Input to government policy—Creating forums for discussion with the government.
- Establishing and operating the SME Support Center
- Implementation of industry-wide SME promotion projects—Partial financial assistance

Support for activities of business associations should include the following.

- a) Easing of conditions for the establishment of business associations and streamlining of permit and approval procedures
-Easing of approval standards for the establishment or switching to a reporting system.
- b) Support for some of the activities of business associations (e.g., partial financial assistance for formulating a vision for the industry.)
- c) Increasing the opportunities for dialogue between the government and industry representatives (There are already annual meetings between the Prime Minister and representatives of businesses, including both SOEs and private enterprises.)
- d) Participation of industry representatives in the SME Policy Committees to be established within the SME Promotion Agency.

2.6.2 Support for the Establishment of Business Cooperatives

Forming a group of SMEs sharing the some problems in order to resolve them is a very effective means of doing business for the SMEs which lack management resources, such as funds, technology and human resources. For example, the ceramics industry can improve efficiency and product quality, and also prevent pollution, by switching from coal-fired kilns to gas kilns, but smaller firms are unable to do this because of heavy burden of equipment investment. In this case, if a number of companies can jointly own a gas kiln, it would be easier to make the switchover.

Business cooperatives will make it possible for a number of SMEs to carry out joint projects. Projects for which business cooperatives would be effective include the following.

- Equipment investment (joint use of production equipment, storage and physical distribution facilities, such as warehouses)
- Joint order acceptance and marketing
- Joint product development

Effective supporting measures for business cooperatives will include the following.

- Advice and consultation for the creation of business cooperatives
- Streamlining of permit and approval procedures for the establishment
- Financial support (subsidies or financing) for common projects

2.7 Realization of One-Stop Advisory

2.7.1 Needs for One-Stop Advisory

In Viet Nam, various supporting services for SMEs have been carried out by various ministries and agencies. It is certain that the government will further enhance their support for SMEs.

While supporting services are being enhanced, there has arisen the problem of availability of information on necessary supporting services to SMEs. For example, even when a manager wants to attend management education seminars, he or she cannot obtain information on what kind of seminars are available at a time which is convenient for him or her.

There is also a serious problem in that managers of SMEs do not know where they should bring their problems to when they want advice. This has resulted in the fact that even though there are people in the vicinity who can provide necessary support, the business managers with the problem cannot access them.

In Japan, the Department of Commerce and Industry Promotion in the governments of prefectures, cities, towns and villages across the country as well as local Chambers of Commerce and Industry and Commerce and Industry Associations have been providing SMEs with information on various supporting measures. Staff members of the Chambers of Commerce and Industry and Commerce and Industry Associations are given the title "Commerce and Industry Guidance Officers." Although the Chambers of Commerce and Industry do not always have all the information on supporting measures, businessmen have more or less uniform access to information in Japan.

In Viet Nam, its SME promotion policy will be implemented principally via a network through which a large number of governmental institutions provide supporting services by utilizing the record and experiences of various ministries and agencies. In providing such services, the conditions must be readied so that managers of SMEs can obtain information on necessary supporting measures with the minimum effort. Therefore, it is essential to create one-stop advisory desks to realize full utilization of various SME supporting services provided by governmental agencies.

2.7.2 Concept of One-Stop Advisory Desk

The most appropriate format for the one-stop advisory desk should be examined while taking into consideration the existing system of information services, user-friendliness as seen from SMEs, and regional characteristics of each part of the country. Special attention should be given to the following factors.

- a) Managers of SMEs should be able to get information on various supporting measures in one day to the extent possible, instead of visiting various places. However the cost and time required to gather all the information to one spot and also the cost of maintaining the freshness of information, there is a limit to the content of information that can be offered at one spot.
- b) Information on supporting measures will consist of information that are “permanent,” such as whom one should consult to solve a particular problem, and information for which “freshness” is important, such as what kind of seminars are to be held at where and when. The latter type of information is useless after the seminar has been held.
- c) One should place heavy emphasis on the records of existing organizations that have been providing consulting services, such as SME-PC and branches of VCCI and VICOOPSME. They must create friendly atmosphere for SME managers who come to consult them.
- d) In the urban areas, it would be helpful to have more than one one-stop advisory desks. The organizations running these desks will be able to gather information regarding what kind of supporting measures SMEs need through the inquiries they receive from them.
- e) From the point of view of equal opportunity, it is desirable for the contents of information provided to be more or less uniform across the nation. Though there is no large accumulation of SMEs in the rural areas, it would be necessary to give consideration to access to information in these areas. It would also be necessary in the provincial areas to consider providing appropriate advice to micro industries in the agrarian communities.
- f) Although the main targets for information services will be SMEs, these desks should also actively respond to inquiries from owner-operated businesses (households).

2.7.3 Methods of Operating One-Stop Advisory Desks

(1) Who will run the one-stop advisory desks?

There are three methods of running one-stop advisory services, each taking advantage of the regional characteristics.

1) Hanoi and Ho Chi Minh City

In Hanoi and Ho Chi Minh City, there already exist many supporting agencies which provide information to SMEs. Based on their experiences, VCCI (SME-PC), VICOOPSME/NEDCEN and other non-governmental organizations (their headquarters and Ho Chi Minh City branches) will play the central role in the immediate future, and then when SMESC is created, they should be reorganized into a network with SMESC as its center. It is also hoped that DOSMEP (Department of SME Promotion) to be established within the People's Committee of each district will also run a one-stop advisory desk.

2) Medium-size cities

There are branches of VCCI in medium-size cities like Hai Phong, Da Nang and Can Tho, where there are active industrial activities. By utilizing the networks of existing organizations, VCCI (SME-PC) and DOSMEP, which is to be created in People's Committees, should also set up one-stop advisory desks. These will be reorganized into a network with SMESC as its center, when SMESC is created in the future.

3) Other regions

The areas other than those which have been mentioned so far do not have very active industrial activities and there are no branches of VCCI. In these areas, it is hoped that branches of NEDCEN will be utilized and also that departments relating to industries (at present the Planning and Investment Departments) of the People's Committees will be manned by personnel who can respond to inquiries from SMEs. The goal is to have all provinces providing services by 2010 and that one-stop advisory desks will be established in approximately 500 districts.

Table 2-6 Establishment of One-Stop Advisory Desks by Stages

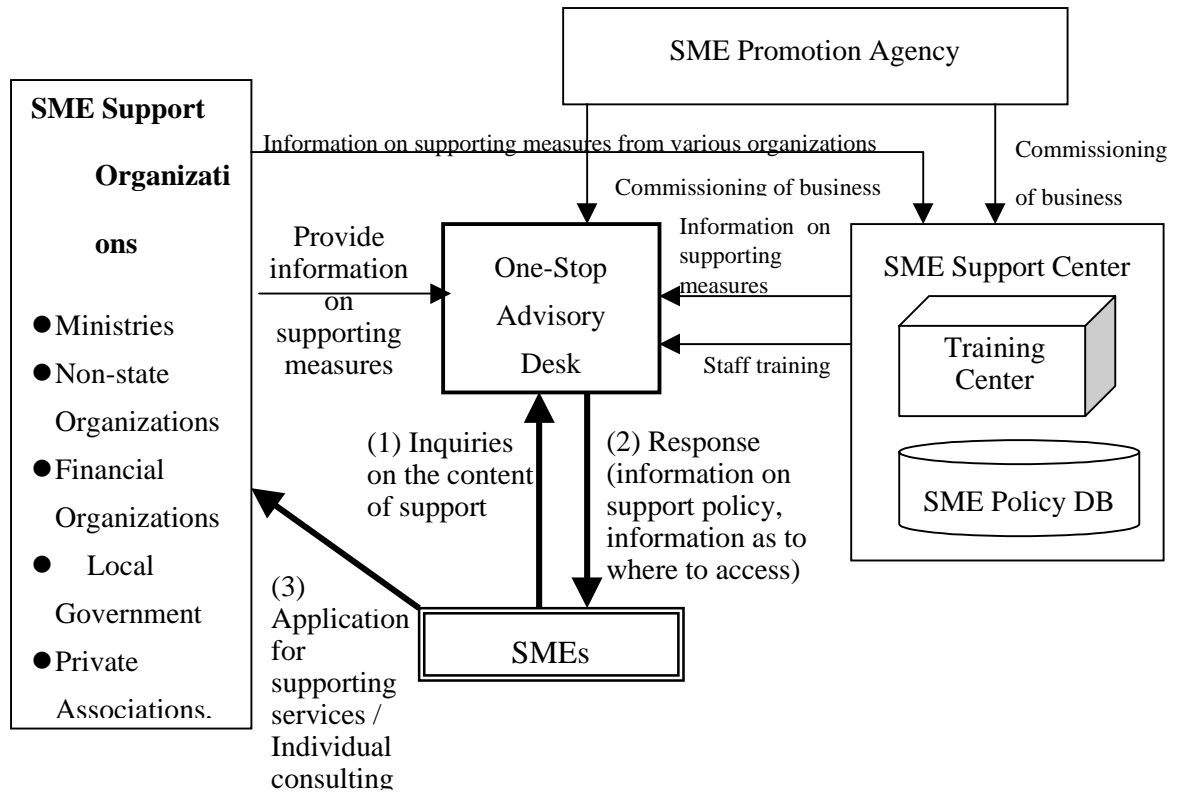
	Initial stage (Up to 2005)	Middle stage (2006-2010)	Late stage (2011 and onward)
Locations	Establish desks at approximately 20 locations in 11 major cities by 2002. Establish desks at approx. 120 locations across the nation's 61 provinces by 2005.	Establish desks in the People's Committees of approx. 500 districts.	Also establish desks in the People's Committees of approx. 1,000 districts.

Source: JICA Study Team.

(2) Methods of running one-stop advisory desks

- 1) SMEs will obtain information on supporting measures from the above-mentioned one-stop advisory desks. They will be able to obtain information on SME support measures extended by the government and other organizations and information on supporters (consultants) on various management problems faced by SMEs.
- 2) The organizations running the one-stop advisory desks will offer information on SME support measures by using a supporting measure database. They should also gather information specific to their particular region on their own and disseminate such information among the SMEs.
- 3) SME support measure database is to be created by SMEPA by gathering information from various supporting agencies. Computer terminals for retrieval of information from the database will be installed at the organizations housing one-stop advisory desks. The database will be transferred to SMESC, which will maintain it.
- 4) The staff members who will provide information and advice to SMEs at the one-stop advisory desks should be very knowledgeable about SME promotion measures and also know intimately the key persons at relevant ministries, agencies and other organizations. SMEPA should commission SMESCs, SMEPC under the umbrella of VCCI, and NEDCEN under the umbrella of VICOOPSME to train and educate personnel who will operate advisory services. This should make it possible to offer more or less uniform quality of services across the nation.

Figure 2-5 An Outline of One-Stop Advisory Desk



Source: JICA Study Team

Note: (1), (2), and (3) show steps through which SMEs receive supporting services.

3. FINANCIAL SYSTEM

3. Financial System

3.1 Fundamental Structure of SME Finance, its Recent Progress and Latest Status

3.1.1 Fundamental Structure

(1) Financial System

The fundamental structure of the present financial regime was augmented out of the financial sector reform carried out in 1988, while its legal framework was formalized through enactment of the Ordinance of Financial Institutions in 1990. Financial system has been propelled by the single engine of indirect finance system ever since.

The financial system is composed of different categories of institutions such as four state owned commercial banks, two state owned policy banks, 51 joint share-holding banks, four joint venture banks, 24 branch offices of foreign banks, 977 People's Credit Funds, five finance companies, and eight leasing companies.

The magnitude of the funds mobilized through the banking system is small in size. The total outstanding balance of loans by financial institutions, which stands at 62.2 trillion Dong as of December 31, 1998, accounts for only 21.6% of the country's GDP (335.9 trillion Dong), which expresses the low extent of financial deepening in the country.

Table 3-1 Outstanding Balance of Loans by Commercial Banks

(Unit: Bil. Dong)

	1996		1997		1998	
	Loan Balance	%	Loan Balance	%	Loan Balance	%
Total loan balance	50,751	100.0	62,200	100.0	72,595	100.0
State owned banks	38,320	75.5	48,041	77.2	59,085	81.4
Non-state owned Bk	12,431	24.5	14,159	22.8	13,510	18.6
Medium/long term	16,321	100.0	21,443	100.0	29,639	100.0
State owned banks	13,405	82.1	17,965	83.8	25,858	87.2
Non-state owned Bk	2,916	17.9	3,478	16.2	3,781	12.8
Short term loans	34,430	100.0	40,757	100.0	42,956	100.0
State owned banks	24,915	72.4	30,076	73.8	33,227	77.4
Non-state owned Bk	9,515	27.6	10,681	26.2	9,729	22.6

Source : State Bank of Vietnam, 1999.3

State owned commercial banks dominate the lending scenario by providing 81.4% of total lending including both short term and medium/long term loans, while occupying 87.2% of medium/long term lending. The state of oligopoly among the state owned commercial banks is getting more conspicuous with their lending share has kept rising since 1996.

1) State Owned Commercial Banks

The financial institutions lending to SMEs are state owned commercial banks, joint share-holding banks as well as other types of institutions. Among the state owned commercial banks, Industrial & Commercial Bank of Vietnam is acknowledged to have substantial lending exposures to non-state owned enterprises, while the rest of state owned commercial banks' lending share to SMEs remains notably low. The percentages of lending made to non-state owned enterprises by each of the state owned commercial banks is, 21% for Industrial & Commercial Bank, 3% for Investment & Development of Vietnam, 15% for Vietnam Bank for Foreign Trade and 2% for Vietnam Bank for Agriculture & Rural Development (as of end of 1997 for all banks except Industrial & Commercial Bank whose data is as of end of 1998).

The high percentage observed for Vietnam Bank for Foreign Trade is attributable to the trade related lending granted to joint ventures and large enterprises. One can assert that, with the exception of Industrial & Commercial Bank, there is no pivotal institutions which are proactively providing financial support to SMEs.

Industrial & Commercial Bank of Vietnam has historically pursued a positive lending policy towards non-state owned enterprises. Recently, the Bank has encountered surfacing large amount of overdue loans partly due to the economic slow-down affected by Asian turmoil and partly due to various financial scandals involving the Bank, both of which mandated the Bank to alter its basic lending policy toward safety. The Bank has made it clear to allocate more lending quota to state owned enterprises than to non-state owned enterprises with the belief that the state owned enterprises are safer party to lend.

2) Non-state Owned Commercial Banks

In the year of 1998, total outstanding balance of loans by non-state owned commercial banks has decreased as compared to the previous year end, which evidences absolute decline of their status within the financial industry. While the lending share to non-state owned enterprises has risen among the whole non-state owned financial institutions, leading banks among the non-state sector such as Asia Commercial Bank, Vietnam Export-Import Bank and Vietnam Maritime Bank are expressly stating that their lending criteria is heavily weighted toward improvement of quality of loan portfolio. Taking Asia Commercial Bank for example,

the Bank has expanded its loan balance to state-owned enterprises by 33%, while that to non-state enterprises has declined by 0.8%, endorsing the Bank's policy change in lending.

3) Lending Structure according to Judicial Status of Borrowers

About 50% of the total lending by all financial institutions are granted to state owned enterprises and only 16.5% of nation-wide lending are made in favor of non-state owned enterprises. To be particularly noteworthy is the tendency that state owned commercial banks funnel more than half of their lending (54.9%) to state owned enterprises, while lending only 14.7% to non-state owned enterprises. On the other hand, non-state owned commercial banks also lend the largest share of their funds (32.5%) to state owned enterprises, while lending 22.6% of total funds to non-state owned enterprises, with clear indication that non-state owned commercial banks tend to lend higher percentage of funds to non-state enterprises.

While medium/long term loan accounts for 34.5% of the nation-wide banking system, majority share (66.2%) of the total medium/long term loans has been granted to state owned enterprises. Non-state owned enterprises have been granted with the meager 5.4%, or 1.2 trillion Dong in the absolute term. The data exemplifies the fact that, for non-state owned enterprises, borrowing medium/long term funds from commercial banks is very difficult and almost next to being impossible.

Table 3-2 Balance of Loans by Judicial Status of Borrowers

(Unit: Bil. Dong, as of 1997.12)

	State owned banks		Non-state owned B'k		All institutions	
	Loan Bal	%	Loan Bal	%	Loan Bal	%
Total loan balance	48,041	100.0	14,159	100.0	62,200	100.0
SOEs	26,382	54.9	4,597	32.5	30,979	49.8
J/Vs	206	0.4	48	0.3	254	0.4
Ltd liab. & J. Stock	7,043	14.7	3,196	22.6	10,239	16.5
Cooperatives	323	0.7	3,770	26.6	4,093	6.6
Priv. & Household	14,086	29.3	2,558	18.1	16,644	26.8
Total loan balance	17,965	100.0	3,478	100.0	21,443	100.0
SOEs	12,697	70.7	1,489	42.8	14,186	66.2
J/Vs	56	0.3	1	0.0	57	0.3
Ltd liab. & J. Stock	649	3.6	522	15.0	1,171	5.5
Cooperatives	184	1.0	1,210	34.8	1,394	6.5
Priv. & Household	4,379	24.4	256	7.4	4,635	21.6

Source: State Bank of Vietnam, 1998.8

(2) Interest Rate Structure

State Bank of Vietnam regulates both the short term and medium/long term interest rates. Prior to early 1990s, the structure had been maintained in the manner that the real interest rate remained negative. In 1992, the real interest rate turned positive and the real rate has kept positive ever since. Meantime, the yield curve of the interest rate had stayed in inverse condition where long term rate yields lower than short term one up till 1996. The yield curve turned positive in late 1996 and kept the position until May, 1999 when the yield became flat and thence to resume the positive yield after August revision of the ceiling rate. The current ceiling rate imposed by State Bank of Vietnam is 1.05% per month for short term and 1.15% per month for long term (as of August, 1999).

(3) Policy Based Government Credit

There exists no policy based government credit established for SMEs. Each of the line ministries concerned is providing financial facilities directing state owned commercial banks to extend government funds for projects whose nature is public investment (Public Investment Program). In addition, government is providing direct finance to economic entities through separately established Government Funds such as National Investment Assistance Fund operated by Ministry of Finance or National Employment Fund by Ministry of Labor, War Invalid and Social Affairs.

(4) Financing Programs Funded by ODAs

Due to the insufficiency of policy based government credits specifically purported to SME promotion, SMEs are confronted with serious difficulties in raising necessary funds for their operation. To complement such insufficiency of the funds, ODAs could be the practical method and source of funds. Government of Vietnam has, so far, utilized several ODAs for meeting SMEs' financial needs, though the extent of such utilization remains still sporadic and is not in a full-fledged status. Establishment of policy directed government credit, were it be developed, may take long time and enormous efforts to cover the insatiable needs of SMEs and it sounds reasonable for the government to continue utilization of ODAs for SME financing.

3.1.2 Recent Progress

(1) Revision of Laws concerned

In October, 1998, Law on State Bank of Vietnam and Law on Credit Institutions went into effect. What is particularly noteworthy is the provisions of Law on Credit Institutions concerning the credit policies to be adopted by each credit institution for each of the economic

sector. While the law specifically spells out the credit policies to be adopted for state owned enterprises, cooperatives, agriculture, mountainous and remote area, poverty stricken area and scholarship students, there is no recognition of non-state enterprises. The entire framework of the law is heavily biased toward state owned financial institutions as well as to state owned enterprises.

In July, 1999, a decree for implementation of Domestic Investment Promotion Law (revised) was promulgated. The decree, among others, specifies establishment of Development Assistance Fund (to be reorganized after dissolving National Investment Assistance Fund), National Export Assistance Fund and National Scientific and Technology Development Assistance Fund. In addition to the establishment of National Funds , government is committed to render assistance toward activities by private sector initiative for providing various supports to investment activities, including technical assistance, market research and consulting services.

(2) Reform of Financial Sector and Financial Institutions

Non-performing loans of commercial banks have kept expanding. Disposition of non-performing loans and restructuring of financial sector are the imperative tasks to be achieved. As of June 30, 1998, State Bank of Vietnam announced overdue loans of commercial banks, as 8.2% for state owned commercial banks, 16.6% for non-state owned share-holding banks, 15.1% for joint venture banks, and 0.8% for foreign banks. In order to expedite disposition of non-performing loans, State Bank of Vietnam has issued a regulation concerning sale of assets held by financial institutions. In addition, a special purpose company is reported to be established soon for acquisition of non-performing assets to be disposed by financial institutions.

Government of Vietnam has launched the restructuring of financial sector following the effectuation of new banking laws. Basic principle laid out by the government is composed of ingredients such as; 1) restructuring of commercial banks both state owned and non-state owned, 2) improvement of legal and legislative framework, effective control and supervision of financial institutions, 3) creation of level playing field for all financial institutions, and 4) human resource development in the financial sector. World Bank is vigorously assisting the financial reform and the basic framework of financial sector reform has been laid out based upon mutual agreement reached between the Government of Vietnam and World Bank.

3.1.3 Financial Constraints of SMEs

(1) Financial Constraints Acknowledged by the Study

The Study Team has interviewed 45 non-state owned enterprises who belong to the four specific business sectors of machinery & machine parts , electric & electronics, garment, and other priority sub-sectors. The interviewed enterprises are located in Hanoi, Ho Chi Minh City and their precincts. The Study Team has confirmed that SMEs are confronted with financial constraints as has been reported by many other previous studies.

The most rudimentary constraint is acknowledged in the fact that, due to the lack of appropriate support by the government and handicapped competition against state owned enterprises, SMEs are compelled to support themselves without relying upon the assistance to be provided by the government. In order to sustain themselves, SMEs often tend to look after informal sources of finance in addition to the ones from family and friends. Loans granted by commercial banks to SMEs, if any, are limited to short term working funds and SMEs are hardly able to obtain medium/long term funds for plant investment. SMEs also find it hard to absorb the interest expense as the current level of interest rate exceeds most SMEs' absorptive limit and create the tendency of limiting their operation within the limit of self owned capital.

Criticism is frequently heard over the lending attitude of commercial banks. Commercial banks have no capability to understand actual status quo of industry. Banks do not grant loans despite the fact that land use right is surrendered for mortgaging and applicants of such loans have to curtail the scale of their investment so as to be accommodated by the available source of funds.

Similarly, incidents of financial constraints have been found in export finance; 1) banks do not discount the export bill under a Letter of Credit, 2) banks do not allow credit taking an L/C as collateral, 3) banks do not discount the export bill without an L/C, due to the non-existence of export insurance system which should cover export related risks in place of an L/C. Meanwhile, opening of import Letter of Credit is also restricted due to the facts such as; 1) importers are required to put up advance deposit for 0~80% of L/C value, or 2) opening of deferred payment L/C is prohibited.

(2) Studies on Fund Raising by SMEs

There have been not a few studies made on the subject delving into the issues of fund raising activities of SMEs and various constraints confronted. The following studies are some of the most typical examples of such.

- 1) Stockholm School of Economics, “Anatomy and Dynamics of Small Scale Private Manufacturing in Viet Nam” (1999.5)

In five Provinces of Hanoi, Ho Chi Minh City, Haiphong, Ha Tay and Long An, non-state owned 500 enterprises were surveyed to ascertain their development path, constraints in growth, linkage with other industries, and employment promotion. The study finds three major constraints in growth as, shortage of funds , insufficient demand for products, increased competition. The percentages of enterprises who nominates the shortage of funds as the constraint in growth are, 23.5% in Hanoi, 17.1% in Ho Chi Minh City, 49.5% in Haiphong, 31.3% in Ha Tay, 50.6% in Long An. Funds shortage is recognized as the most serious constraints in growth together with increased competition. It is further recognized that shortage of funds is more conspicuous in rural area than in urban district.

Alternatively, the weights occupied by the shortage of funds among all other constraints in growth by judicial status of the enterprises are: 1) in urban area, 32.1% for joint share-holding and limited liability companies , 32.1% for cooperatives, 22.5% for partnerships, 31.8% for private enterprises, and 25.5% for household enterprises, 2) in rural area , 41.7% for private enterprises, 35.4% for household enterprises, and 63.6% for other enterprises. Shortage of funds tends to aggravate as the judicial status evolves from primitive household toward sophisticated share-holding enterprise. The result of the survey is understood as the reflection of the fact that household and private enterprises which are primitive in evolutionary stages limit their business operation within the limit of available capital source.

- 2) Mekong Project Development Facility, “Viet Nam’s Undersized Engine: A Survey of 95 Larger Private Manufacturers” (1999.6)

MPDF has surveyed larger private industrial manufacturers with the number of employees more than 100 under two main objectives: (i) to document the current status and problems of private manufacturers so that they can be supported more effectively by government policies, market institutions, and firm-level assistance programs, and (ii) to gain insight into strength and weakness of the first wave of successful entrepreneurs. Enterprises surveyed are 95 companies registered in Hanoi, Haiphong, Thai Binh, Danang, Ho Chi Minh City, Dong Nai, and Binh Duong. Being questioned about the major constraints in business management (up to three answers), most heavily voted issues are; 1) 53% for difficulty in obtaining investment capital , 2) 41% for lack of information, 3) 39% shortage of working capital, 4) 19% for Asian economic crisis, 5) 16% for government policy being not transparent.

The insurmountable hurdle for SMEs in securing credit from commercial banks is the mandatory requirement of collaterals. In addition, 1) problems are found in the low assessment of collateral evaluation, 2) assets eligible for collateral are narrowly defined, 3) state

owned enterprises are exempted from collateral requirement. Given the scenario, private manufacturers are crowded out from access to medium/long term loans.

The survey confirms that 67% of all enterprises have succeeded in borrowing funds from commercial banks. While 43% of all enterprises have record of obtaining short term loans five times or more, those who have received medium/long term loans for three years or longer are only 18% of all enterprises. On the other hand, those enterprises who have submitted official application but have failed to borrow are only three companies. In other extreme, 30% of all enterprises have not applied commercial banks for borrowing. The reasons given for not applying bank loans are; 1) procedures are complicated, 2) limiting investment within the owned capital for safety, and 3) interest expense will be heavy burden on profitable operation.

Talking to the financing needs, 66% of all enterprises are expressing desire to borrow medium/long term funds to modernize equipment and machineries. With regard to the introduction of outside capital, five share-holding companies expressed keen interest in all forms of capital mobilization, from listing on the stock exchange to selling shares to venture capitals. Half of the remaining companies responded in the affirmative. Many companies expressed dissatisfaction with the idea of giving up control over business affairs.

3) CIEM-UNIDO, “Improving the Macroeconomic Policy and Reforming the Administrative Procedures to Promote the Development of the Small and Medium Enterprises in Viet Nam” (1998)

CIEM and UNIDO conducted a joint study with the objectives of analyzing positive and negative effects of the policies, legal and macroeconomic framework on the establishment and development of SMEs. The study has surveyed 40 SMEs located in Hanoi and Ho Chi Minh City.

According to the survey, 55% of enterprises have the difficulty in capital; 67.5% have to borrow from relatives and friends; 25% receive raw materials in advance; 42.5% borrow from banks; and 20% borrow from other financial organizations. As to the causes which make borrowing from banks difficult, complicated procedure; insufficiency of collateral; incomplete title deeds of land use right and building premises; difficulty in valuation of collateral assets; inefficient fund utilization of SMEs; and relation between banks and SMEs is not well established.

The survey also reveals that the shortage of funds stems from such background as, 1) state owned enterprises control 88.4% of total capital and assets of the country and no effective distribution of capital and asset has been carried out, 2) investment through ODA and foreign direct investment are concentrated into state owned economic sector and no benefit is dispersed to non-state economic sector. The survey stipulates that there exist not a few legal provisions

and regulations which are aggravating the shortage of funds issue for SMEs. The issue of collateral requirement is the most typical one of such examples. In addition, the survey notes that no clear-cut procedures has been established for creating mortgages on collateral asset and assessment of collateral value conducted by banks are often deviated from the fair market value.

The study report also specifies that SMEs in Viet Nam is in a handicapped position as compared to their competitors in neighboring countries where SMEs are benefiting from the specialized financial institutions set up for the purpose of SME promotion.

(3) Problems Confronted by Financial Institutions

The ominous financial scandal which surfaced lately has shaken the economy and aggravated financial blockade and subsequent inertia at financial institutions. The incident involved branch offices in Ho Chi Minh City of both Industrial & Commercial Bank of Vietnam and Vietnam Foreign Trade Bank from whom equivalent of US\$330 million had been swindled by private businessmen during 1995~1997. Arrested persons included 18 officials and staff of the two banks and officials of People's Committee counted 77 persons against whom a verdict was handed in August 1999, sentencing death penalty against 6 accused and life imprisonment against other 6 accused. (Minh Phung & EPCO case)

There followed other cases of financial scandals involving criminal indictment. In May, 1999, a high officias of Nam Do Bank who had gone into bankruptcy last year and was absorbed by Investment & Development Bank of Vietnam was arrested for violation of government regulations. In March, 1999, an official of Viet Hoa Bank was arrested for black money dealing. These incidents have driven commercial banks to tighten ethical codes within each institutions.

The other problem which financial institutions are faced is non-performing loans. State Bank of Vietnam instructed commercial banks to contain overdue loans at less than 5% of total portfolio. As an emergency measure, State Bank of Vietnam issued specific instructions to the institutions whose overdue loans exceed 10% (2 state owned commercial banks, 18 shareholding banks, 1 joint venture bank) to formulate action plans to reduce overdue loans , to institute measures to improve quality of loans, to enforce tightening of ethical code of bank staff, and to work out plans for collection of overdues.

(4) Actions Taken by Financial Institutions and SME Financing

Following revelation of Minh Phung & EPCO case and accumulation of overdue loans, commercial banks, one after another, have been altering lending policies and tightening lending guidelines. The most typical is that of Industrial & Commercial Bank of Vietnam who has

made a change in asset allocation, as is mentioned earlier. Similarly, other financial institutions are following suit in adopting disciplines for improvement of quality of loan with priority stressed in safety. What follows from this change is that commercial banks tend to elude responsibilities of financial reluctance, claiming that SMEs are weak in managerial capability and lack the ability of project planning and implementation.

Top management of commercial banks are spending much energy in promulgating government rules and regulations throughout their own organizations so that their staff will not get involved with criminal indictment cases. This management efforts are creating an atmosphere in financial institutions that bank officials avoid making prudent man judgement owing to their concern about criminal penalty. Commercial banks are re-directing their business efforts to state owned enterprises and large joint venture companies. Only a limited number of banks are continuing their efforts in identifying promising SMEs and developing new business relations with such companies in proactive manner, while the rest of the banks are spending time in coping with requests coming from existing customers in passive manner.

The ceiling rate of interest set by State Bank of Vietnam is quoted as making SME lending more difficult. The lending margin of commercial banks keep decreasing due to the recent reduction of the ceiling rate and reduces profitability of SME lending, while SME lending involves a certain administrative cost. Banks' pursuit of cost performance is another factor driving banks toward large credit.

(5) Support Activities for SMEs by Mekong Project Development Facilities

Given the scenario, noteworthy is the support activities for SMEs by Mekong Project Development Facilities (MPDF). Having 45 professional staff in Hanoi and Ho Chi Minh City, MPDF provides assistance to SMEs conducting business diagnosis and preparation of business plan. Based on the business plan thus prepared, MPDF introduces its client SMEs to suitable financial institution.

The contents of the support provided by MPDF are; 1) feasibility studies and market studies; 2) evaluation and advice on company's operational and financial status; 3) evaluation and advice on corporate and management structures, financial reporting systems, etc.; 4) advice on technology; 5) preparation of business plans; 6) working with companies to obtain necessary financing; 7) training and technical assistance.

Among the supports provided, preparation of feasibility study and business plan for specific project plays an important part of SME support. MPDF sends its professional staff to a client company with whom the staff works for a few months together to prepare the business plan. The documents to be prepared out of such support are consisted of;

- 1) Business plan
 - (i) contents of business plan, (ii) management structure, (iii) shareholding structure, (iv) governing law and license, (v) market analysis, (vi) geographical condition, (vii) building, equipment, machinery and their supply sources, (viii) financial planning
- 2) Financial Statement
 - (i) income statement, (ii) balance sheet, (iii) cash flow statement
- 3) Project Implementation Schedule
- 4) Reference Material

Through the activities for past three years , MPDF has opened files of about 200 projects, out of which about 40 projects have reached to financial closing or completion of technical assistance with the achieved success ratio of 20%. The range of target projects are the ones with investment amount for US\$ 250~10,000 thousand. Though there is no limit set out for the size of company ,generally perceived target is companies having more than 100 employees. MPDF maintains a data base of such companies in which there are more than 400 companies in the target range.

3.2 Issues to be Addressed in the Financial System

3.2.1 Preparation of Policies in Coordination with Other Relevant Policy Consideration

(1) Participation into AFTA & WTO and Transformation to Open Market Economy

AFTA requires its member countries to abolish non-tariff barriers and reduce tariff rate down to 5% by January 1, 2003, while Viet Nam is allowed leeway period up to January 1, 2006. Any policy measures to be established must be coordinated with the time schedule in which the transition to open market economy will take place so that financial sector itself will not stand to be a bottleneck in enhancing industrial competitiveness.

(2) Enhancement of International Competitiveness

In transition to open market economy, SMEs should be given with the environment in which they can compete evenly against foreign competitors. In financial sector, too, an equivalent environment should be prepared for SMEs. In considering and setting up policy measures for SMEs, efforts should be made that SMEs will be ensured with the opportunities of fund raising which are equivalent with other competing countries.

(3) Realization of Level Playing Field

Creation of level playing field is the fundamental prerequisite of the market economy and is the issue to be settled prior to SME promotion. The inequality existing at present should first be tackled. Among the issues which need immediate attention, the mandatory requirement of collaterals in borrowing funds from commercial banks (while state owned enterprises are exempted) should first be attended. In addition, de facto inequality is widely acknowledged despite rules and regulations provide equal treatment of all economic sectors, in such issues as; 1) access to land use right (land use right is granted only to the applicant whose business plan is approved by government), 2) access to policy based government credit (business plan has to be appraised by government), 3) terms and conditions of commercial bank lending (state owned enterprises obtain credits easier and favorable terms due to the size of credits being large).

(4) Expansion of Policy Based Government Credits

At present, policy based government credits provided for SMEs are limited to a few national funds directly operated by the government, both central and provincial, and several ODA programs. Funds are in obvious insufficient supply and cannot be deemed as nationwide universal set-up. In clear perspective of open market economy, policy based government credits have to be reinforced meeting SMEs' financial needs adequately.

3.2.2 Issues in Implementation of policies

(1) Change of Financial Institutions' Inclination toward State Owned Enterprises

Financial institutions express that they treat all economic sectors equal, but in reality, because of the priority placed on the safety, a tendency cannot be denied that heavy concentration of funds into the larger enterprises in state sector and joint ventures with foreign firms. With a few exceptions, commercial banks are not equipped with a special unit to develop new business relations with SMEs and keep themselves busy in dealing with approaches made to the banks from existing customers. No motives for identifying and developing new business with SMEs is perceived. Basic perception of financial institutions has to be attended to instigate them in fostering business relations with SMES.

(2) Fairer Implementation of Policy Based Government Credits under Easier Procedures

With exception of cases where implementation is entrusted to commercial banks, policy based government credits are granted to those projects of which assessment are made by competent government office, either central or provincial, and approved for eligibility and viability. Government credits also require collaterals. Appraisals are conducted through committees established within the government offices concerned and are staffed with government employees with or without financial background which may not guarantee objective judgement of the target projects. The appraisal process takes long time and lacks an institutional safeguard which enforces fair and equal treatment between state owned enterprises and the non-state owned. Recent reports point out an example of such case in performance record of National Investment Assistance Fund.

(3) Discouragement of Business Settlement in Cash

In today's business practices, settlement of business transactions is carried out in paying Dong cash. The settlement method involving enormous amount of cash troubles efficient operation of business transactions. One of the reasons behind heavy usage of cash is the retarded development of check system and commercial bill system. Pending accounts of money for collection are booked as accounts receivable which are not transferable and do not have means of financial procurement. Commercial bills, promissory note or bill of exchange, should be studied for their dual functions of, first as the instrument for definitive settlement of business transactions, and second as the financial instrument which can be discounted by financial institutions. Realignment of check system and creation of commercial bill system would contribute in promoting finances for SMEs.

(4) Reform, too little & too slow

The Law on State Bank of Vietnam and Law on Credit Institutions were enforced as late as October 1998. Despite their recent enactment, there still lingers a remnant of discrimination of non-state owned enterprises as against state owned enterprises. The tempo of progress is feared too late to be in line with the transition to open market economy. In addition, issuance of decrees are falling behind, while only 7 decrees out of 24 slated have been issued so far, creating the situation in which the laws cannot be fully implemented due to the delay in promulgating rules and regulation for implementation. Enactment of new laws must be followed by timely announcement of implementing rules, for which advance preparation of concerning regulations are required. Such preparatory work should be proceeded, paying due consideration to the international practices and transition to open market economy.

(5) Promotion of Information Disclosure

In general, disclosure of corporate information at enterprises borrowing funds and financial institutions are far from satisfactory and environment for financial transaction based on financial statements is yet to be established. Insufficient disclosure of information will make the borrowing by enterprises difficult and will bar the enterprises from utilizing direct finance market. Complete disclosure has to be preceded by installment of accurate accounting system. The national accounting system and accounting standard have to be clearly established and enforced.

(6) Change of Direction of Bank Employees' Attitude from Avoidance of Responsibilities

New Banking Law provides that bank officials who will be held responsible for non-recoverable loans without objective reasons may face criminal penalty. Being concerned of the penalty, bank officials tend to be conservative and do not dare to take risks which are associated with commercial lending to SMEs. Clear instruction should be given to financial institutions and their staff that bank officials will not face criminal penalty unless they will be charged for willful misconduct or gross negligence of their duties and the proper environment has to be created in which banks exercise prudent man judgement for sound bank lending.

(7) Human Resource Development

The most popular job opportunities for Vietnamese students are quoted to be government offices, central state owned enterprises and state owned banks. Students demonstrate strong inclination toward stability and hesitate to take their risks in launching into competitive business world. Commercial banks enroll staffs with higher education and their credit related departments are assigned mostly with college graduates. Newly employed staffs are trained at

training center or courses of each banks. Majority of the banks' training facilities are suffering from shortage of qualified trainers and urgent necessity is acknowledged for reinforcement of the training system including training of trainers.

3.2.3 Functions to be Reinforced

(1) Severance of Policy Based Government Finance from Commercial Banks and Establishment of a Specialized Institution

As of present, substantial part of the policy based government credits are implemented by state owned commercial banks. Through the implementation of policy based government credits, activities of commercial banks are frequently intervened by politics which encroaches into the autonomy of those institutions and poses to be an insurmountable impediment in carrying out the sound banking practices. In order to attain full fledged autonomy of commercial banks , policy based government credits should be severed from operation of commercial banks and a separate and independent institution should be established as a specialized organ to implement policy based government credits for SMEs. The new institution to be created should be assigned to handle all the policy based government credits including both the one currently handled by commercial banks and the one directly handled by government offices now.

The new institution specialized in SMEs should concentrate itself in accumulating professional knowledge and experiences on SME finance and make striving efforts in promoting finances for SME development through the exertion of objective and prudent man judgement in complete accordance with the government's SME promotion policy.

(2) Strengthening of Commercial Banks' Capability

Strengthening of commercial banks' capability should be approached from multiple facets. It should be extended to both fund raising and lending including portfolio administration. Functions and systems to be reinforced include, but not limited to; interest rate structure; deposit insurance; accounting system; collateral system; check & commercial bill system; inter-bank market system. Out of those areas mentioned, some preparatory work is under way by the government (ex. deposit insurance, accounting system, collateral system , check & commercial bill system as well as inter-bank market). The key issue is that those efforts for institutional strengthening of banks do not fall short of what is actually indispensable, being too little and too slow. Once again, reforms should be compatible and in line with the progress of the transition to open market economy.

One cannot forego without mentioning the importance of the strengthening of credit appraisal capability. Institutional set-up for promotion of sound banking, in-depth credit analysis and appraisal, followed by efficient administration of loan portfolio are the key functions to be specifically strengthened. Further, control of overdue loans and system for risk control as well as the marketing system are indispensable and must be constructed on the solid foundation of a computer controlled comprehensive management information system.

(3) Expansion of Export Finance

In order to promote export effectively, financing should not be confined to the enterprises who are engaged in direct export business, instead should encompass enterprises who are indirectly engaged in export related businesses within its target. Financial arrangement for export promotion should accommodate enterprises' needs for funds starting from the stage of preparatory phase of export production, export contract, shipment, and through ultimate collection of sales proceeds. Similarly important is the inauguration of export insurance system. Export business cannot always rely upon letters of credit issued from the importers. Exporters often find themselves that they have to forego without letters of credit in getting into new market or new product business. Particularly, entry into the highly competitive market will necessitate exporters to take risks without letters of credit. To cope with such circumstances, government has to provide an insurance facility for export so as to enable exporters hedge various unforeseeable risks involved with their export business.

(4) Realignment of Collateral System

Financial institutions require borrowers of funds to put up collaterals, while state owned enterprises are exempted placing non-state owned enterprises under unfair treatment. Current regulations define the eligible objects for collateral in narrow range of part of the movable and immovable assets of the borrower enterprises. Knowing that banks will not lend without surrender of suitable collaterals, SMEs are customarily in the state that they cannot even visit banks for funds. Collateral system should be urgently re-studied for modification so as to enable SMEs to raise necessary funds for operation.

(5) Modernization of Accounting System

The existing Vietnam Accounting System falls far short of the international system and accounting standards are yet to be established. Efforts are being made to modernize the accounting system and introduce accounting standards in compliance with the internationally accepted ones. Accounting system cannot be isolated from audit system, both internal and external. For enterprises to obtain financing based on their corporate strength without

surrender of physical collaterals will require enterprises to produce accurately processed and externally audited financial statements and have them analyzed and assessed by the banks. For SMEs to bear the cost of audit, particularly the external, may not be easy. While strengthening accounting capability of SMEs are of imperative nature, practical compromise should better be sought for enforcement of audit system in such a manner that appropriate criteria according to which SMEs shall be mandated in respect of the size of the company and coverage for such enforcement.

(6) Rationalization of Interest Rate Structure

State Bank of Vietnam regulates ceiling rates of lending at financial institutions. While the ceilings are set separately for short term and medium/long term lending, the spread of yields between the two is too small for both the depositors and financial institutions to mobilize the funds in medium/long term. Under the current interest rate structure, mobilization of medium/long term funds may not be feasible. Interest rate structure is should be rationalized by abolishing the current ceiling regulation and let the market principle decide appropriate level as well as proper yield curve for mobilizing domestic resources in medium/long term financing.

(7) Support for SMEs Obtaining Investment Capital

To effectively provide assistance to SMEs for raising investment capital, establishment of venture capital should be given consideration. While two types of venture fund, the one being government funded and the second being privately formed are conceivable, government involvement both in capital contribution and fund management is deemed indispensable, given the nature of such fund providing capital investment to newly born and therefore very fragile enterprises. The establishment of such fund should be closely linked to the government policy to develop an strategic sector of industry.

(8) Support for SMEs in Enhancing Creditworthiness

Basis of creditworthiness of an enterprise lies in the managerial capability and financial strength which is closely interlinked with human resource, technological as well as marketing capabilities. The assistances needed by SMEs in such areas as; strengthening of managerial capability; upgrading technology and human resource development are separately dealt in Chapter 7; technology and supporting industry promotion and in Chapter 8; human resource development. Through the implementation of specific measures as has been mentioned, environment should be established in which SMEs are encouraged to make serious efforts in enhancing their creditworthiness and any specific needs of assistance from SMEs towards such ends should be properly accommodated.

3.2.4 Scheduling for Improvement of SME Finance

The issues and items heretofore mentioned are varied in its urgency and attainability. In addition, implementation of policy measures should be carefully studied for appropriate sequencing, otherwise wrong sequencing of such measures might evolve unnecessary confusion rather than taking an effect. The chart III-1 shows the sequencing of policy measures envisaged.

(1) Multi-Facet and Simultaneous Approach

The issues which need to be reinforced for SME financing can be classified into the four distinctive areas; 1) recoveries of functions of financial institutions, 2) improvement of SME finance, 3) reinforcement of financial infrastructure, 4) human resources development and managerial guidance. Problems are acknowledged in all of the four categorical fields. In order to straighten out constraints of SME financing, those series of issues have to be addressed at multilaterally and simultaneously depending upon urgency of each issue.

(2) Basic Approach for Sequencing

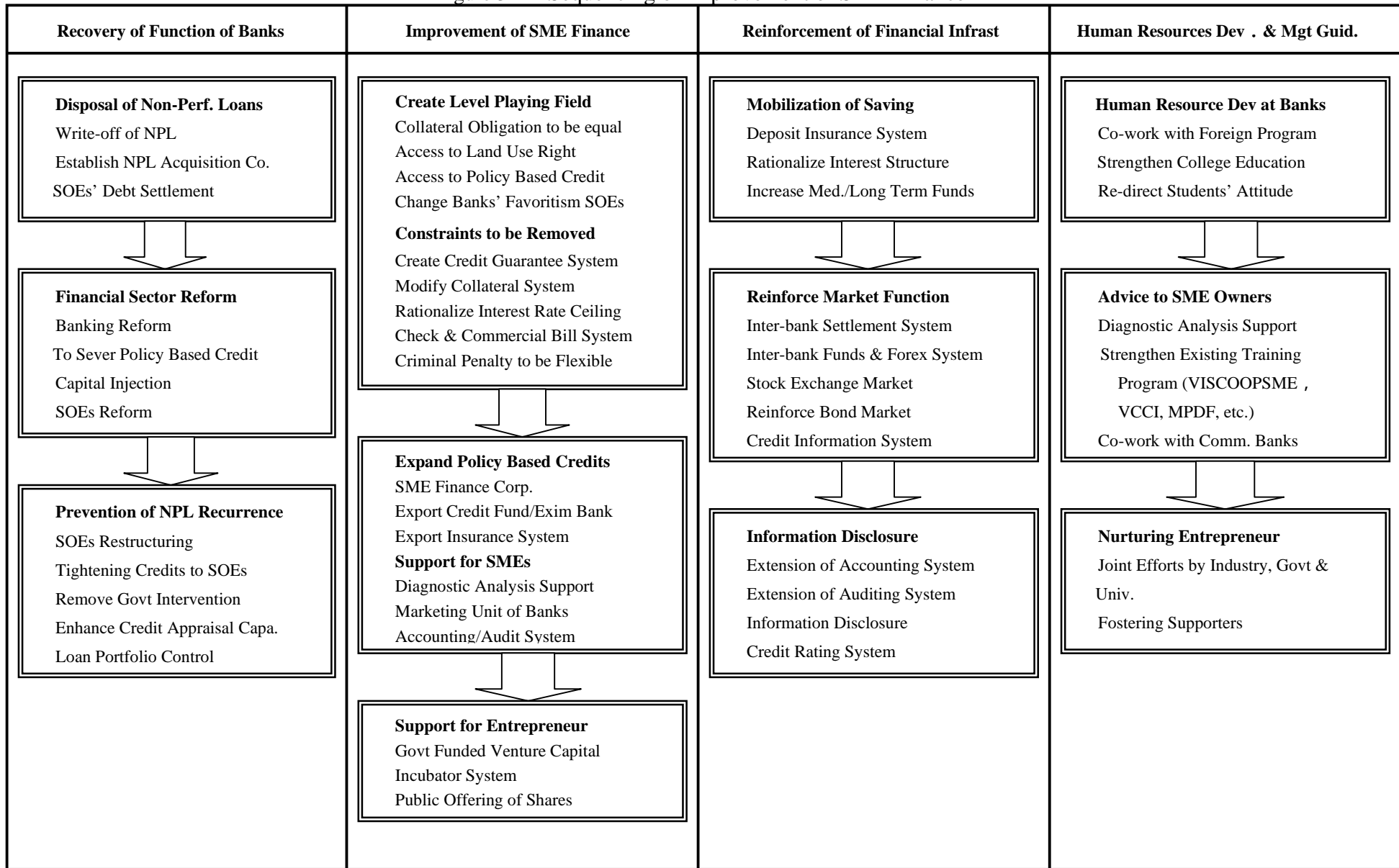
The first stage of sequencing is to study and analyze causes of paralysis of financial functions for SMEs, moving to the second stage of surgical operation of those causes, after which the third stage comes for recuperation after surgical operation, rehabilitation, recovery of physical strength and promotion of healthier function. On the other hand, efforts should be continued for reinforcement of policy measures and business environment so that functions for SME finance will be smoothly carried out. Those basic approach for sequencing can be figured out as follows;

- 1) recoveries of functions of financial institutions
【 disposition of non-performing loans 】 【 financial sector reform 】 【 prevention of recurrence of non-performing loans 】
- 2) improvement of SME finance
【 realization of level playing field, removal of constraints for SME finance 】 【 expansion of policy based government finance, support for SMEs 】 【 support for entrepreneurs 】
- 3) reinforcement of financial infrastructure
【 mobilization of domestic saving 】 【 strengthening of market functions 】 【 information disclosure 】

- 4) human resource development and managerial guidance
【 human resource development at financial institutions】 【 advice to SME owners】
【 nurturing of entrepreneurs】

Actual implementation of policy measures for improving the financial sector entails different phases such as decision making for policy planning, preparation of implementation plan and actual implementation works which constitute basic process of policy realization. Gestation period of each policy measure may vary depending upon the content of the policy to be launched. The Figure 3-1 depicts such staging in conceptual diagram. The items of recommendations described in the next section are the ones of prime importance and immediate implementation is urged. The time frame allowed for the implementation of the recommended policies is limited and, thus, many of the relevant issues are to be addressed simultaneously. The time schedules indicated for each of the issues in the next section are intended to indicate the target months of inauguration or enforcement of legal framework, organization, and operation which may not coincide with the sequencing discussion.

Figure 3-1 Sequencing of improvement of SME Finance



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3.3 Recommendations on Policy Measures and Institutional Arrangement

Described hereunder are the recommendations on policy measures and institutional arrangement which are of high priority in promoting financing for SMEs.

3.3.1 Realignment of Collateral System

(1) Background and Purpose

The Law on Credit Institutions provides that financial institutions require borrowers of funds to put up collaterals. Should SMEs are mandated to surrender collaterals without exception, such regulations substantially restrict SMEs' access to commercial bank financing. State owned enterprises, on the other hand, are exempted from the collateral requirement. SMEs are left in a handicapped position in two means; firstly SMEs are in difficult position to borrow funds because of lack of collaterals, and secondly the competitor enterprises owned by the state are in a better position to obtain financing without collateral. Knowing that the banks will not lend without surrender of suitable collateral, SMEs are customarily in the state that they cannot even visit banks asking for funds.

The current collateral rights established in Viet Nam are in two kinds, one being mortgage and the second in pawning. Objects that are defined eligible by government regulation for mortgaging are; land use right; apartment; houses & construction objects attached to land; factories; hotels; shops; warehouses, etc.; instruments, machinery & equipment attached to factories, ships, aircraft etc.; insurance attached to the mortgaged asset. And objects for pawning are; valuable movable property; paper redeemable in cash; jewelry; insurance attached to those movable property ("Regulation on mortgaging, pawning and guaranteeing for bank loans", Decision No. 217/QD-NH1, 1996.8.17). The collateral system should be fundamentally amended so that the system can support sound financial practice in which SMEs can have reasonable access to the financial resources for their normal business activities.

b) Specific Recommendations for Realignment of Collateral System

1) Financial Institutions to be Allowed Discretion over Necessity of Collateral

The fact that the banking law regulates financial institutions to extend credits only against collaterals is exceptional in light of the prevailing international practices and immediate efforts for modification are urged. The decision whether to take collateral or not should be judged by the financial institutions lending money, and should not rest upon the decision of government nor the provision by a law. The matter should rather be left to financial institutions for their discretion and laws and regulations concerned should be modified accordingly.

Financial institutions should be allowed to judge whether they have to take collateral when they appraise individual credit application based upon the institutions' management policy and lending charter. It is the intrinsic function of financial institution that they raise funds from depositors and make the credit as well as periodic conversion of the raised funds so that the funds can meet the lending terms and conditions and create new credits through lending to their customers. Whether to take collateral or not should be judged by the financial institutions from the viewpoint of safety of the lent money.

2) Removal of Discrimination between State Owned Enterprises and Non-state Owned Enterprises with regard to the Collateral Requirement

Discrimination should be removed by liberalizing collateral requirement for non-state owned enterprises. Financial institutions, given the discretion over the judgement if to take collaterals, may grant loans to the customer of good credit quality without collateral. On the other hand, state owned enterprises of low credit quality may reasonably be required to submit collaterals to financial institutions to keep quality of loan portfolio at satisfactory level.

3) Expansion of Eligible Objects for Collateral

As the objects eligible for collateral are narrowly defined, SMEs are not permitted to assign an asset like account receivable though it is a tangible asset, much less the intangible asset. In general, assets held by SMEs are rather scarce and limited, it should be made possible that SMEs can utilize whatever assets they own to secure borrowing from financial institutions. We recommend that laws and regulations be so amended that all and any kind of assets owned by enterprises can be eligible for collateral and procedures should be worked out for those new objects to be put up for collateral and be disposed in the event of non-payment of the collateral backed loan.

4) Creation of Commercial Bill System

Introduction of the commercial bills, promissory note and bill of exchange, into business settlement is strongly recommended. Commercial bills shall be given the status of a negotiable instrument embodying a definitive monetary value and may be transferred to other party through endorsement. SMEs receiving commercial bills in settlement of their sales of merchandise may be able to ask commercial banks to discount such bills, or instead, use the bills through simple endorsement in payment of materials purchased. While SMEs have no other choice but to wait for cash payment for their accounts receivable at present, commercial

bills can replace accounts receivable and enable SMEs to liquidate them with at ease, bringing easier method of finance both to SMEs and financial institutions.

Introduction of commercial bills will require either a new law or decree which sets out detailed rules and regulations concerning the legal status of the instruments, issuance, transfer, payment, and penalty for violation and non-payment. Similar to checks, commercial bills will require establishment and operation of clearing system centrally controlled. Having many phases common with check system, the control and operation of commercial bill system may entail not much additional work for the parties concerned. Rather, government is urged to relax rules and regulations on check system which is kept inactive because of the tight regulations imposed on the actual implementation. Typical issues to be addressed, are such that printing of check book is monopolized by State Bank of Vietnam or that the supply of check book to a company is tightly limited.

5) Assignment of Accounts Receivable

Alternatively, liquidation of accounts receivable at SMEs can be realized through assignment of accounts receivable. The accounts receivable which cannot be replaced to commercial bills, may be assigned to financial institutions who take the assigned accounts receivable as collateral for lending. The rudimental scheme of assignment requires an assignment contract between the lending institution and the borrowing company, through which lending institution secures payment coming in from the company owing the account receivable. Through the method, SMEs should be made possible to obtain financing against collateralized accounts receivable.

To institutionalize the assignment of accounts receivable, laws and regulations have to be amended to accommodate legal concept of assignment and to invent a legal measure through which the assignee lender can have the preemptive right on the assigned accounts receivable. The assignee should be protected from the bankruptcy of the assignor.

Box No. 1: Assignment of Accounts Receivable

Assignment of accounts receivable is one of the methods of collateral in which the borrower transfers its title and beneficiary status of accounts receivable to the lending financial institution through assignment contract. The assignor, borrower, regains title to the assigned accounts receivable by repaying the debt owed to the assignee financial institution. Unlike the pawning method, assignment does not entail physical transfer of the object for collateral. As the procedures for setting up the collateral is simple and easy, the assignment method can be applied to collateralization of other types of movable assets without being limited to the accounts receivable.

The assignment contract is normally made in between the assignor, the borrower, and the assignee, the lending institution, notify the party who owes the account receivable to the assignor and obtain a written consent from such obligor for submission to the assignee. Such contract and the consent letter obligates the obligor to remit the proceeds of settlement to the assignee, lending institution, enabling the latter to offset the remitted proceeds with the money lent to the assignor on the maturity date of lending. So long as the assignor does not default the borrowed money, the assignee lending institution will give the remitted proceeds back to the assignor in crediting the latter's account. Such acts of returning the collateralized assets to the assignors shall be repetitiously continued.

6) Method to Secure Collateral for Future Lending

The present collateral system requires financial institutions to specify the credit to be collateral backed and under the circumstances, financial institutions have no way to maintain collateral for the credit to be negotiated in future. In considering amendment and introduction of new systems for collateral, allowance should be incorporated through which collateral can be put up against the credit that may arise in future.

7) Floating Charge System

Floating charge system is a method of collateralization which is advanced from the traditional method that is based on the individual asset to be separately entitled for collateral. The system was invented in United Kingdom and disseminated to many countries throughout the world. The basic structure of the system is to encompass not only the assets a company owns at present but any asset which may come to belong to the company for submission to the lending institution. While the floating charge covers total assets of the assignor, its legal effect is weak and limited, in its respect that the assignor company maintains freedom of asset disposition and assignee lender does not get preemptive right against bona fide third party. For practical execution of financial transaction, lending institution should first create specific mortgage on individual important asset and then create floating charge over the remaining assets. Financial institutions should utilize floating charge as the secondary security for their lending not as the primary protection.

Procedures to institutionalize the floating charge may involve amendment of laws, such as civil code and/or enterprise law. Legal status of the system should specifically and clearly be defined, including preemptive relation against other parties of interest. Procedures should be studied and established for creation and registration of the charge, proceedings to crystallize the charge leading to the eventual receivership and disposition of the crystallized assets

Box No. 2 Floating Charge System

Floating charge system is the one which does not specify the objects of collateral and rather takes the corporate entity as a whole as the object of collateral, unlike the mortgage system in which the object of collateral is to be definitively specified. In the floating charge system, objects of collateral shall be fixed only when a defaulting event will take place at the borrowing company, until such time, the borrower keeps control of the assets with complete freedom of disposition. Any asset newly acquired by the company shall be automatically incorporated into the charged asset. As the borrower retains discretion over the disposition of the asset, the system can be more flexible and adaptable in comparison with the mortgaging system. The borrower will retain freedom of business activities without being interfered by the mortgaging constraints, so long as the business runs smooth.

Under the floating charge system, the assets of the borrower company keep fluctuating as the business activities of the company keep going. Those assets will crystallize when the company stops operating, determines to dissolve, or is put under receivership, in which instances the assets stops floating and is fixed for crystallization. Disposition of the collateralized assets shall always be preceded by the crystallization before disposition. As the floating charge system is intended to cover all the assets of the borrower company, the current narrow definition of Vietnam's collateral has to be first expanded, before considering the introduction of the system. And thence, the legal framework for the new collateral system of floating charge will be considered for inauguration.

(3) Recommendations on the Revision of Land Use Right

Current mortgaging system of land use right contains not a few issues hindering promotion of SME financing. Efforts are invited for modification on the following issues.

1) Revision Leading to Smooth Mortgaging (Recognition of “Going Concern” Continuity)

The issue of land use right stems from the fact that business activities of SMEs are not recognized as a going concern. Land use right is approved on a specific project and its tenure is limited for the life of the approved project which naturally expires as the time elapses. Mortgage on the land use right is limited within the tenure approved and such limitation in tenure makes mortgaging land use right ineffective. Even the company who owns a land use right may not create mortgage out of the land use right as the remaining tenure gets shorter and loses collateral value out of it. Land use right should be legalized on the recognition that business entities are of “going concern” and not limited to a single project life. Specifically, land use right which is granted to a business entity should be favored with flexible extension of tenure or automatic renewal for a new tenure.

2) Revision of Mortgage System of Land Use Right

The land use right which is permitted to be mortgaged now is limited to the one on which rental fee is paid in advance for the entire or a certain part of the total tenure. In addition, the collateral value to be approved on the land use right is limited to the value of rentals prepaid and correspond to the part of the prepaid tenure not elapsed. Such regulation restricts validity of land use right for collateral to almost impractical extent.

The restriction that requires advance payment of rentals should be immediately removed. If such restriction is imposed because of the fear of defaulting in the payment of land rentals, the issue should be treated in similar manner with the case of defaulting in the other public levies. Excessive concern for such extreme cases are imposing unnecessary restrictions onto many of the sound business entities engaged in productive activities. At the same time, assessment of collateral value of mortgaged land use right should be fair based on the actual market value and financial institutions should be well educated to implement fair market valuation of collateral.

3) Registration System of Mortgage should be Improved together with Accurate Information Disclosure

Creation of mortgage on a real estate is required to be registered at local land administration bureau. But there is no clear-cut registry system nor the disclosure of registered mortgage information. Proving a certain right on a real estate needs complicated procedure. There should be established a simple and transparent system of mortgage creation, registration and disclosure of mortgage information.

As business activities of enterprises expand throughout the country, assets to be mortgaged may become located in dispersed areas. Financial institutions have to know the accurate information as to what kind of titles and obligations are incumbent to the specific property that is to be mortgaged. The mortgage registration system should be capable to provide accurate information with regard to the mortgagor's obligation and mortgagee's entitlement viz-a-viz bona fide parties. The mortgage registration system should be constructed with the future perspective in which creation and release of mortgage shall be centrally controlled through a computer system.

(4) Conceivable Schedule of Implementation

Following is the schedule conceived for implementation concerning the revision of collateral system for each of its components;

- 1) Banks to be allowed discretion whether to take collateral----- immediately
- 2) Removal of discrimination over collateral requirement----- immediately
- 3) Expansion of eligible objects for collateral----- 2000. 6
- 4) Introduction of commercial bill system----- 2000. 6
- 5) Assignment of accounts receivable----- 2000. 9
- 6) Introduction of floating charge system----- 2002.12
- 7) Amendment of land use right based on the “going concern” principle----- 2000. 9
- 8) Collateral system of land use right to be relaxed----- immediately
- 9) Improvement of mortgage registration system and information disclosure---2002.12

3.3.2 Establishment of SME Finance Corporation

(1) Background and Purpose

Out of the current functions of commercial banks, policy based government credits should be severed and transferred to an institution specialized in policy based finance. Government finance for SMEs should be handled by an independent specialized institution thus to be established. For effective implementation of SME promotion, government should first establish a legislative agency at central level to formulate various policy measures covering all aspects of SME activities and implement them through different organs for implementation. SME Finance Corporation (SMEFC) can be classified as one of such organs, through which government extends financial support to SMEs.

SMEFC is destined to extend financial support to SMEs, and shall, therefore, operate under a distinctive philosophy that is heterogeneous to that of commercial banks. Basic principle of SMEFC should clearly spell out a proactive posture for the benefit and promotion of SMEs. While commercial banks are behaving hesitantly, SMEFC is to take an initiative role of leading financial industry for more positive approach to SMEs. This initiative by SMEFC should, in turn, be reflected onto the operation of other financial industry through the network of agency lending system to be employed by SMEFC.

Most of the competing countries surrounding Viet Nam have established similar institutions specialized in government finance for SMEs and creation of competitive environment with those countries can be the other persuasive reason for establishment of SMEFC.

(2) Activities of SMEFC (Expansion of Policy Based Government Finance)

1) Objects for Financing

- Eligible enterprises are SMEs to be specified by each policy measure of the government
- Purposes of policy measures should include, but not limited to, such as; export promotion; modernization of equipment and machineries; employment; market development; introduction of new technologies; support for business start-up; environmental protection, etc. SMEFC is assigned to provide financing necessary for implementation of policy measures to be laid out by the government.

2) Kind of Credit and Lending Limit

- Kind of credit extended is loans and guarantee, and terms of the credits are short term and medium/long term.
- Lending limit is a prescribed percentage of the total cost of eligible project, to be specified by each policy measure.

3) Rate of Interest and Collateral

- Rate of interest applied is to be specified in the individual policy. Special preferential rate may be applied to the limited strategic sector and/or other sector like environmental protection designated by the government in view of its importance to the country.
- In principle, collateral should be required. For the SME who cannot produce eligible collateral object, SMEFC may extend limited amount of funds with the condition that the company receives a diagnostic support to be conducted by SME Promotion Agency or its Agent.

4) Loan Administration

- SMEFC keeps close coordination with SME Promotion Agency and ask them to conduct diagnostic analysis of SME borrowers, should it be deemed necessary.

5) Fund Raising Source of SMEFC

- Funding source can be sought from state budget, ODA, and postal saving system, while long term stable funds may be sought by issuance of bonds, in addition to the utilization of insurance funds. (cf. Insurance industry enjoys annual revenue for 1.7 trillion Dong and is participating treasury bill auction market with shares next to state owned commercial banks. In 1998, insurance industry bought treasury bill for 550 billion Dong through auction system. Postal saving has started operation in August, 1999.)

(3) Institutional Set-up of SMEFC

1) Branch Network

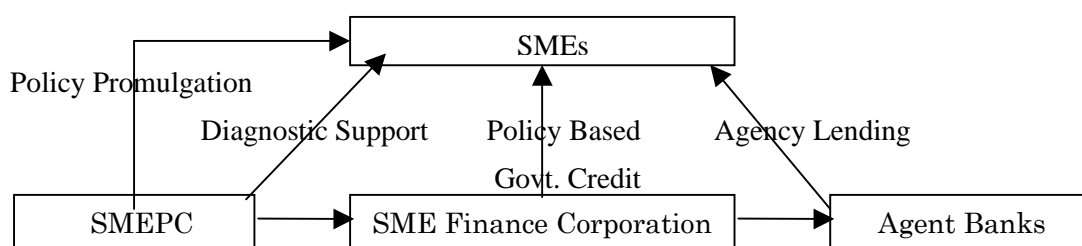
- SMEFC will be established under and supervised by SME Promotion Agency. Initial organization for starting its business is the headquarter and one business office. While

SMEs are geographically dispersed throughout the country, a wide spread network is necessary to cover substantial number of SMEs. However, it will not be practical to expect SMEFC to have nationwide branch network of its own from the start-up. Instead, alternative method should be invented for effective coverage of widely dispersed SMEs.

2) Introduction of Agency Lending System

- SMEFC provides direct lending to SMEs and at the same time lends through agency lending system utilizing the commercial banks' network. By utilization of existing network of commercial banks, SMEs have easy access to policy based government finance and SMEFC can make avail of the relevant functions of credit appraisal and credit administration of commercial banks.
- The schematic diagram of SMEFC's finance can be diagramed as follows;

Figure 3-2 Concept of Financing by SMEFC



(Source) JICA Study Team

3) Organization of SMEFC

- At its business start, required staff for the presumptive organizational structure is estimated to be about 100 employees (10 for administration, 15 for business development, 15 for credit analysis & appraisal, 20 for loan documentation, processing, administration & collection, 5 for research, 10 for computer system, etc.)

4) Development of Professional Know-how

- SMEFC is the organization specialized in SME finance which requires special know-how and managerial operation by skilled staff. In addition to the co-working relationship with SME Promotion Agency for diagnostic support, SMEFC should maintain close working relationship with institutions providing various assistance to SMEs and other programs extended from foreign aid agencies for SME support. Employment of specialized consultant for SME support may also be required to carry out implementation of practical SME finance.

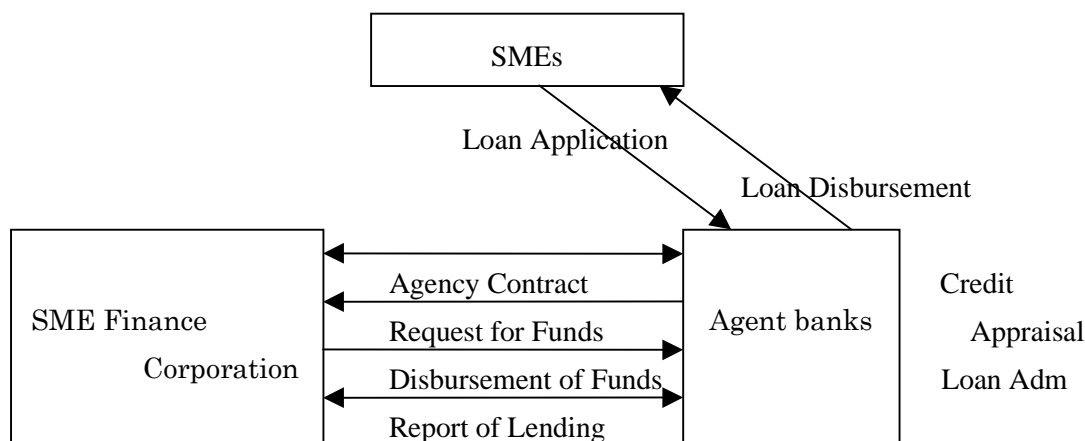
5) Estimated Business Volume

- Annual turnover is estimated to be 1.4 trillion Dong, which includes ODAs for US\$ 50 million and domestic policy based credits for equivalent magnitude. About three quarters of the funds will be medium/long term loans. In five years from start-up, the lending portfolio of SMEFC will reach 7 trillion Dong, which is tantamount to about 1% of present total loan balance of all financial institutions. The initial capital of SMEFC is 280 billion Dong (US\$ 20 million). All of the policy based government credits shall be handled by SMEFC. The paid-up capital should be maintained and increased so that SMEFC maintains its capital adequacy ratio above 8% as according to the international standard.
- Viet Nam has so far implemented four ODA programs directed to SMEs, whose total amount goes up to about 2.8 trillion Dong (US\$ 200 million) and occupies about 10% of the total medium/long term loans extended by all financial institutions of the country. Future ODA programs shall be assigned to SMEFC as its core business.

(4) Financing Scheme through Agency Lending System

- In the implementation of the agency lending system, an arrangement shall be made for agent banks to share a part of the lending risks associated with a particular credit extended, for which the agent banks will get paid with remuneration for lending operation on behalf of SMEFC. SMEFC shall let agent banks conduct credit analysis, appraise the credit and administer the loan portfolio as if it is its own loan portfolio. SMEFC concentrates itself in making post appraisal of the credits granted by agent banks.
- SMEFC establishes a specialized unit for instructing and supervising agent banks and carries out a routine on the spot training by visiting instructors. The unit has to make sure that agent banks are conducting agent banking business in a proper manner through regular periodic inspection. On the other hand, an arrangement shall be secured so that agent banks shall never be intervened by the government for financial manipulation.
- The system of agency lending will function to complement short staffing of SMEFC, while on the other hand, will contribute to strengthen institutional capabilities on the part of agent banks through the instruction and guidance to be provided by SMEFC. The following figure shows a schematic diagram of the agency lending system.

Figure 3-3 Schematic diagram of agency lending system



(Source) JICA Study Team

(5) Issues Associated with the Establishment of SMEFC and Countermeasures

There exist some critics who claim that it is premature to establish a specialized lending organization for SMEs. Reasons given behind are, the first being the constraint in state budget, and the second being duplication of works to be created between SMEFC and commercial banks in view of the fact that the majority of the enterprises commercial banks are dealing with, fall into the definition of SMEs. But, as a matter of course, the problem of duplication of works will disappear when policy based government credits are severed from commercial banks and assigned to the specialized financing organ, wherein the state of co-existence between the commercial banks and SMEFC will be attained.

The issue on the budgetary constraint, on the other hand, is legitimate one and should be addressed in view of the national priority for which the scarce budgetary resource should be allocated. In as much as SMEFC takes over the functions currently provided by the commercial banks and national funds, SMEFC shall not require additional funding from the state budget. Whence, an initiative by the government in any new policy measures will culminate in an additional requirement for funding upon the state budget. Priority should be duly established with such policies of SME promotion in view of its importance to the national economy.

Prior to the establishment of SMEFC, temporary measures can be sought for the government to impose a mandatory requirement upon the commercial banks' lending activities in coerce them to allocate a fixed percentage of loans to SMEs. A typical example of actual implementation of such measure is observed in India, from whom lessons can be learnt including to its pros and cons. The measure shall be effective in securing a certain volume of

funds, while the mandatory requirement shall encroach upon the autonomy of the commercial banks and shall entail a valid concern that the quality of credits at commercial banks may deteriorate. Careful consideration should be given to the possible side-effects, should it be judged necessary for the government to endeavor into such ruling over the commercial banks' activities.

(6) Schedule of Establishing SMEFC

The following is the anticipated scheduling for establishing SMEFC, once a preparatory committee is composed among government offices concerned and will proceed with different steps for materialization;

- 1) Feasibility study to be completed----- 2000. 6
- 2) Government study, preparation of laws & regulations----- 2000.12
- 3) Preparation of organizational set-up-----2001. 6
- 4) Articles of incorporation, by-laws, manuals, etc.----- 2001. 9
- 5) Establishment of headquarter & office, staff recruitment----- 2002. 3
- 6) Completion of computer system-----2002. 6
- 7) Staff training, training for agency lending----- 2002. 9
- 8) Inauguration of business-----2003. 1

3.3.3 Expansion of Systems for Export Promotion

(1) Background and Purpose

In September, 1998, the government has initiated a new export promotion program in which commercial banks offer a preferential lending rate reduced by 0.2% per month from normal credits for export credits involving export of a certain listed commodities. The commodities designated are, 1) fresh and processed cattle and poultry meat; 2) fresh and processed vegetables and fruits; 3) computer software; 4) mechanical products such as diesel engines, electric motors, bicycles and electric fans. Commercial banks joining the program are four state owned commercial banks and two share-holding commercial banks. Exporters eligible for the program are both state owned and private sector companies who are treated equal without prejudice. The funds to be provided by the program are to cover working capital for execution of export contract. Customary appraisal procedure of each commercial banks will be applied in sanctioning the export finance.

Prior to the creation of the above export financing scheme, the government issued a Resolution , in January 1998, announcing concrete policy measures for export promotion and initiating preparatory works for their implementation in the areas such as, finance, taxation,

legislature, etc. The Resolution instructed ministries concerned for detailed studies of export credit fund and export assistance fund, which will eventually be enhanced to the establishment of Export & Import Bank.

In order to promote export effectively, sufficient finances should be made available not only to the exporters who are directly exporting by themselves but to the parties who are indirectly involved with export activities. Finances will be required at different stages of export business such as; advance credits for export production; discount of export bills; financing for import of raw materials to be input for export production.

Aside from the deliberation of Export Credit Fund and Export & Import Bank, serious consideration is urged for establishment of export insurance system. As the volume and market of export transaction grows, exporters will not always be able to depend upon the payment assurances to be obtained from the importers and exporters have to find other means of protection. Exporters are often forced to take the risk of no guarantee, when they try to enter into the market of keen competition. To cope with the situation, most of the host countries of the exporters provide government sponsored insurance systems through which exporters buy the insurance of credit risks of the importers as well as political risks of importing countries. Viet Nam needs serious consideration for establishing such insurance facility for the country to stay competitive in its export market.

(2) Specific Recommendations for Promotion of Export Finance (Establishment of Export Credit Fund)

1) Objects for Financing

- Eligible enterprises are the ones who are directly engaged in export contracts.
- Without any restriction on eligible commodities, all kinds of exports shall be equally supported.

2) Kind of Credit and Lending Limit

- Kind of credit extended is loans and guarantees, and terms of the credits are short term and medium/long term.
- Lending limit is a prescribed percentage of the total cost of eligible project, to be specified by each policy measure.

3) Rate of Interest and Collateral

- Rate of interest applied is to be specified in the individual policy. Special preferential rate may be applied to the limited strategic sector.
- In principle, collateral should be required. For enterprises who cannot produce eligible collateral object, the Fund may extend credits with the condition that the company produces the letter of credits to the Fund.

- Those exporters who cannot provide the letter of credit shall be required to obtain a guarantee to be provided by Credit Guarantee Fund.

4) Fund Raising Source of the Fund

- Funding source can be sought from state budget, ODA, and postal saving system, while long term stable funds may be sought by issuance of bonds, in addition to the utilization of insurance funds.

5) Coordination with Export Assistance Fund under Domestic Investment Promotion Law

- Creation of Export Credit Fund will be duplicated in the scope of work to be implemented through National Export Assistance Fund that has recently been announced to be established under Domestic Investment Promotion Law (Amended) and relationship between the two should be clarified. While the objectives of Domestic Investment Promotion Law are primarily focused upon regional development of the economy and exporters are required to obtain approval under the Domestic Investment Promotion Law before they can be granted the kind of credits to be provided by National Export Assistance Fund. Naturally, not all of the exporters may be eligible for the Fund.
- For the purpose of export promotion, financing system should be designed in such manner that will extend its coverage irrespective of the sector of industry or of commodity. National Export Assistance Fund under Domestic Investment Promotion Law may not suffice the condition, while only the exporters approved under Domestic Investment Promotion Law will become eligible for preferential credits.

(3) Specific Recommendations for Promotion of Export Finance (Establishment of Export & Import Bank)

1) Objects for Financing

- Eligible enterprises are the ones who are directly engaged in or indirectly related to export contracts.
- Without any restriction on eligible commodities, all kinds of exports shall be equally supported. Different stages of export shall be encompassed as the targets for financing including the stages of production through post shipment. Comprehensive financial menu including capital investment for export production as well as working capital shall be made available.
- Sophisticated export such as deferred payment should also be covered by the Bank.
- The Bank shall provide import finance for capital investment and purchase of raw materials which are to be input for export production.
- Another finance to be provided by the Bank is the one for overseas investment by Vietnamese resident that will become unavoidable as the export activities of the country expands.

2) Kind of Credit and Lending Limit

- Kind of credit extended is loans and guarantees, and terms of the credits are short term and medium/long term.
- Lending limit is a prescribed percentage of the total cost of eligible project, to be specified by each policy measure.

3) Rate of Interest and Collateral

- Rate of interest applied is to be specified in the individual policy. Special preferential rate may be applied to the limited strategic sector.
- In principle, collateral should be required. For enterprises who cannot produce eligible collateral object, the Bank may extend credits with the condition that the company produces the letter of credits to the Bank.
- Those exporters who cannot provide the letter of credit shall be required to obtain a guarantee to be provided by Credit Guarantee Fund.

4) Fund Raising Source of the Bank

- Funding source can be sought from state budget, ODA, and postal saving system, while long term stable funds may be sought by issuance of bonds, in addition to the utilization of insurance funds.

5) Cooperation with SMEFC

- Export & Import Bank shall maintain cooperative relationship with SMEFC in paving the way for creation of the environment in which SMEs should be able to tap adequate financing for their export activities.

6) Cooperation with Commercial Banks

- Financing for export and import has very close relation with external settlement which requires an extensive network of correspondent banks throughout the world and direct on-line linkage with the international settlement system. The businesses that directly involves external settlements such as negotiation of export bills and issuance of import letters of credit should be specialized by commercial banks.
- Export & Import Bank shall maintain close working relationship with those commercial banks who handle export bills and import settlement, while the Bank is providing finances at the stages prior to such external transaction processing.

(4) Specific Recommendations for Promotion of Export Finance (Establishment of Export Insurance System)

Export promotion will not be fully attained, should the country and exporters stick to obtain letters of credit. But, on the other hand, external transactions involve quite a variety of risks which are quite different from those of domestic transactions. Export insurance is the system

which is purported to cover the risks associated with export and its related business and is maintained by the direct management and operation of the government in most of the countries throughout the world. Export insurance is the public project falling under the policy objective of export promotion to be implemented by the government.

The export insurance is conceivable in such kinds as; comprehensive export insurance, export bill insurance, foreign exchange risk insurance, technology contract insurance, export guarantee insurance (surety bonds , etc.), advance payment for import insurance, overseas investment insurance, etc. The risks to be covered are classified into political risks and commercial risks. Depending upon the stages of export, export insurance can alternatively be divided into pre-shipment insurance and post-shipment insurance.

Establishment of export insurance system should follow gradual development of the system starting from the initial phase of priority needs based on the current status of trade patterns. The first stage should target creation of comprehensive export insurance and export bill insurance. Comprehensive export insurance covers exporters for export contract as a whole including pre-shipment risks and export bill insurance covers commercial banks for discounting export bills without letters of credit.

1) Objects for Insurance

- Coverage over the losses caused due to non-receipt of export proceeds.
- The export covered includes all types of exports including deferred payment export.

2) Types of Insurance

- Comprehensive export insurance, covering from the stage of contract signing through collection of proceeds.
- Export bill insurance, covering commercial banks for discounting export bills without letters of credit.

3) Risks to be Covered

- Political risk; risks that cannot be attributable to the importer, such as import prohibition, foreign exchange control, war, riot & civil commotion.
- Commercial risk; risks attributable to creditworthiness of the importer, such as default, non-payment and bankruptcy

4) Insured Value and Insured Amount

- Insured value shall be 100% of the export contract within which the insured amount will be fixed.
- Insured value shall be fixed by government regulations depending upon the type of insurance and risks to be covered.

5) Insurance Premium

- Insurance premium shall be decided by the government depending upon the types of insurance, risks to be covered, term of coverage, credit standing of the importing country and credit standing of the importer.

6) Funding Source

- Export insurance is desired to operate by the premium collected from the insured party. However, support from the state budget shall be indispensable, particularly at initial stage of establishment, because the system will require substantial amount of investment for construction of insurance system and information data base of importers located in foreign countries.

7) Relations with the Credit Guarantee to be Provided by Export Assistance Fund under Domestic Investment Promotion Law

- The decree issued in July 1999 for implementation of Domestic Investment Promotion Law specifies that National Export Assistance Fund shall provide credit guarantee for export finance. Details of the Fund is yet to be studied, but the guarantee is understood as the simple credit guarantee under which only the financial institution providing export finance shall be covered, but not the exporter. The exporter who fails to collect export proceeds has no means to cover themselves but goes bankrupt unless it has another source to absorb such loss. The credit guarantee cannot function as the means to hedge risks for the exporter and is thus unable to replace the function of export insurance system.

Box No. 3: Inherent Risks in Foreign Trade and Trade Insurance

Although the trade insurance is one of the varieties of insurance, it features a substantial difference from the marine, fire and casualty insurance. The major purpose of the trade insurance is intended in providing an assurance to the exporter for safety and risk hedge as well as in providing a supporting tool in facilitating extension of credit for the export activity. Worldwide, trade insurance is commonly staying out of covering the material loss which is the uncontested domain of the commercial insurance and composes a distinctive demarcation line of the two insurances. The risks of loss or damage of export cargo during shipping and storage are to be covered by the commercial maritime, fire And casualty insurance. The exported cargo, after being handed over to the importer, will transform into the account receivable to the exporter and the exporter can hedge the risk of non-recovery of the account receivable through the trade insurance system.

The risks to be covered by the trade insurance are classified into two categories of political risks and commercial risks. Political risks include the risks which are not attributable to the parties concerned with the export deal such as; import ban, exchange control, war, riots and/or civil commotions. Such risk is called political or sovereign risk. Commercial risks are alternatively called credit risks and include the risks such as; default of the importer, non-payment or cancellation of contract.

Depending upon the timing when an insurance accident takes place within the stages of export contract, the incident occurring prior to shipment is called enforced suspension of contract and the one after shipment is called non-recovery of sales proceeds, because in the latter case, the insurance accident means exporter's failure to collect sales proceeds. Trade insurance can be conceived of a vast variety of forms depending upon the incorporation of different risks into a combined coverage; commercial/political risks, prior to or post shipment risks.

Typical types of trade insurance and its coverage are conceived as follows; 1) comprehensive export insurance: to cover the enforced suspension of export, non-recovery of sales proceeds, and/or non-payment of remuneration for technical transfer; 2) foreign exchange fluctuation insurance: to cover the loss resultant from exchange fluctuation; 3) export bill insurance: to protect the financial institution discounting export bill without letters of credit; 4) export bond insurance: to cover undue drawing of various trade related bonds; 5) insurance for prepaid import: to cover failure in obtaining refund of prepaid money in case of non-performance; 6) overseas investment insurance: to cover the loss incurred to the overseas investment due to confiscation of equity investment, account receivable, shut-down of operation, prohibition of remittance, and/or bankruptcy of the invested company.

(5) Institutional Set-up of Export Finance (Export Credit Fund and Export & Import Bank)

1) Export Credit Fund in Future Perspective of Export & Import Bank

- The establishment of Export Credit Fund is defined as the interim feature which will eventually be transformed into Export & Import Bank. Composition and structure of Export Credit Fund should take the future perspective into consideration. Transformation from Export Credit Fund into Export & Import Bank will be carried out at the stage that the trade pattern of the country requires sophisticated finance beyond the simple export support finance.

2) Branch Network of Export Credit Fund and Introduction of Agency Lending System

- Export Credit Fund will be supervised by State Bank of Vietnam and will start its business at its headquarter and one business office. It will not be practical to expect the Fund to have nationwide branch network of its own from the start-up. Instead, alternative method should

be invented for effective coverage of widely dispersed SME exporters. Similar to the case for SMEFC, through the agency lending system utilizing existing network of commercial banks, SME exporters have easy access to policy based export finance and the Fund can make avail of the relevant functions of credit appraisal and credit administration of commercial banks.

3) Organization of Export & Import Bank

- At its business start, required staff for the presumptive organizational structure is estimated to be about 100 employees (10 for administration, 15 for business development, 15 for credit analysis & appraisal, 20 for loan documentation, processing, administration & collection, 5 for research, 10 for computer system, etc.). Export & Import Bank shall take over the organization, staff and assets/liabilities of Export Credit Fund.

4) Estimated Business Volume of Export & Import Bank

- The policy based export finance which is currently provided through commercial banks should be transferred to Export & Import Bank upon its establishment together with the government financing provided under the Domestic Investment Promotion Law, including the one to be made by National Export Assistance Fund.
- Annual turnover is estimated to be 1.4 trillion Dong. About one third of the funds will be medium/long term loans. In five years from start-up, the lending portfolio of Export & Import Bank will reach 7 trillion Dong. The initial capital of the Bank is 280 billion Dong (US\$ 20 million). The paid-up capital should be maintained and increased so as to maintain capital adequacy ratio above 8% as according to the international standard.

(6) Institutional Set-up of Export Finance (Export Insurance System)

To manage and operate export insurance system, the Export Insurance Fund shall be established. The Fund shall; receive applications for insurance, make insurance contracts; collect premium; administer credit controls over the importer; appraise insurance accident; make insurance payment; manage insurance funds set aside for insurance payout.

Export Insurance Fund shall be supervised by State Bank of Vietnam together with Export & Import Bank. The Fund shall be managed in close coordination with Export & Import Bank so that the two institutions can effectively exchange information concerning the overseas market and importers. Prior to establishment, a feasibility study has to be conducted so as to ascertain actual needs of exporting industries and determine fundamental conditions of the system such as; the kind of insurance; risks to be covered; and appropriate level of premium, etc.

The critical ingredients of the system is the credit control, in which the Fund has to maintain accurate directory of overseas importers, to grasp their financial conditions, to maintain and

update their rating, to adjust insurance premium depending upon their risk elements, or to refuse acceptance of insurance, should the worst come true within the environment

(7) Schedule of Establishing Institutions for Export Promotion

The following is the anticipated scheduling for establishing three institutions for promotion of export finance, once preparatory committees are composed among government offices concerned and will proceed with different steps for materialization;

[Export Credit Fund]

- 1) Government study, preparation of laws & regulations-----immediately
- 2) Preparation of organizational set-up-----immediately
- 3) Articles of incorporation, by-laws, manuals, etc.----- 2000. 3
- 4) Establishment of headquarter & office, staff recruitment----- 2000. 6
- 5) Completion of computer system-----2000.12
- 6) Staff training, training for agency lending-----2001. 3
- 7) Inauguration of business-----2001. 4

[Export & Import Bank]

- 1) Feasibility study to be completed-----2002.12
- 2) Government study, preparation of laws & regulations-----2003.12
- 3) Preparation of organizational set-up-----2004. 6
- 4) Articles of incorporation, by-laws, manuals, etc.-----2004.12
- 5) Establishment of headquarter & office, staff recruitment----- 2005. 6
- 6) Completion of computer system-----2005. 9
- 7) Staff training, training for agency lending-----2005.12
- 8) Inauguration of business----- 2006. 1

[Export Insurance Fund]

- 1) Feasibility study to be completed----- 2000. 6
 Identification of insurance needs, funding source, types of insurance, risks to be covered, insured percentage, estimate of accident probability, and level of premium
- 2) Government study, preparation of laws & regulations-----2000.12
- 3) Preparation of organizational set-up----- 2001. 6
- 4) Articles of incorporation, by-laws, manuals, etc.-----2001.12
- 5) Establishment of headquarter & office, staff recruitment----- 2002. 3
- 6) Completion of computer system----- 2002. 9
- 7) Staff training, training for agency lending-----2002.12
- 8) Inauguration of business-----2003. 1

3.3.4 Establishment of Investment Function (Venture Capital) Funded by Government

(1) Background

One of the most serious bottlenecks SMEs confront while they plan to start up new businesses is how to obtain the investment capital. Establishment of an investment fund for providing capital for entrepreneurs starting new businesses is earnestly desired. Those funds intended for providing capital investment to the entrepreneurs are commonly called as venture funds or as venture capitals. Venture capital is conceivable in two alternatives; one funded by private capital and the other by government. Taking the fragile corporate strength of entrepreneurs into consideration, government is expected to endeavor into the activity by funneling sufficient funds.

At present, several private investment capitals are in operation in Viet Nam, investing into larger end of private enterprises, foreign joint ventures and into the foreign companies investing into joint ventures in Viet Nam. But there exists no venture fund targeting the entrepreneurs starting new business.

At present, relevant discussions are under way at government ministries for establishment of the investment fund for SMEs as a part of SME promotional policies. Meantime, Ministry of Science, Technology and Environmental Protection is reported to be promoting the concept of industrial zone for SME promotion being equipped with an incubator facility within the high-tech industrial park currently under implementation. A concept for venture capital is also contemplated in association with such project. The function of capital investment for SME entrepreneurs is the one which is indispensable and government's efforts are urged for prompt materialization.

In ASEAN countries, precedent cases are acknowledged in Thailand (IFCT, etc.) and Malaysia (MSC Venture One). Malaysian venture capital has been recently established with specific target of information technology industry along with the country's Multi Media Super Corridor Project with the total funds for US\$ 31 million.

(2) Importance of Nurturing Venture Enterprise

Dynamism of industrial structure rests upon the dynamism of SMEs which compose the fundamental layer of the entire structure. Dynamism of SMEs, in turn, rests upon the magnitude of new business start-ups and demonstration of entrepreneurship in pioneering new sphere of business. Given the existence of new entrepreneurs having aggressive venture mind, instigating those entrepreneurs with spiritual as well as physical support and creating an environment conducive to venture business will lead to the chain action of dynamic development.

The dynamism of SMEs can be measured by the rate of new business start-ups. An environment in which entrepreneurs challenge new business start-up one after another should be created. For the specifically strategic industry like information technology, government should make striving efforts for positive involvement without leaving such industry in laissez faire state of conditions. Good example can be learnt from USA where free competition according to economic principle is the governing doctrine. Government of USA is extending a large number of support measures to venture businesses as such is the important policy target. Different sectors of the country, industry, legislature and academic sector are joined together to support venture businesses under preferential framework constructed by the government. Preferential treatment are offered in the areas of taxation, investment incentives, support by universities, incubator facilities, governmental procurement, etc. Being bestowed with the environment for new challenge, a large number of entrepreneurs are hatched every now and then for flourishing prosperity.

Box No. 4: Supporting System for Venturers in USA

Silicon valley in USA is well known to the world for its integration of venturers in the environment conducive to business start-ups supported by the tripartite cooperation provided by the industry, government and the academic sector. Within such environment, a large number of venturers flock together within competitive environment, and making striving efforts for attaining the competitive edge while maintaining exchanges of information in looking for the highest level of technologies. Among those venturers of Anglo-Saxons, substantial number of entrepreneurs from Asian countries including Vietnam are observed being actively engaged in such challenge.

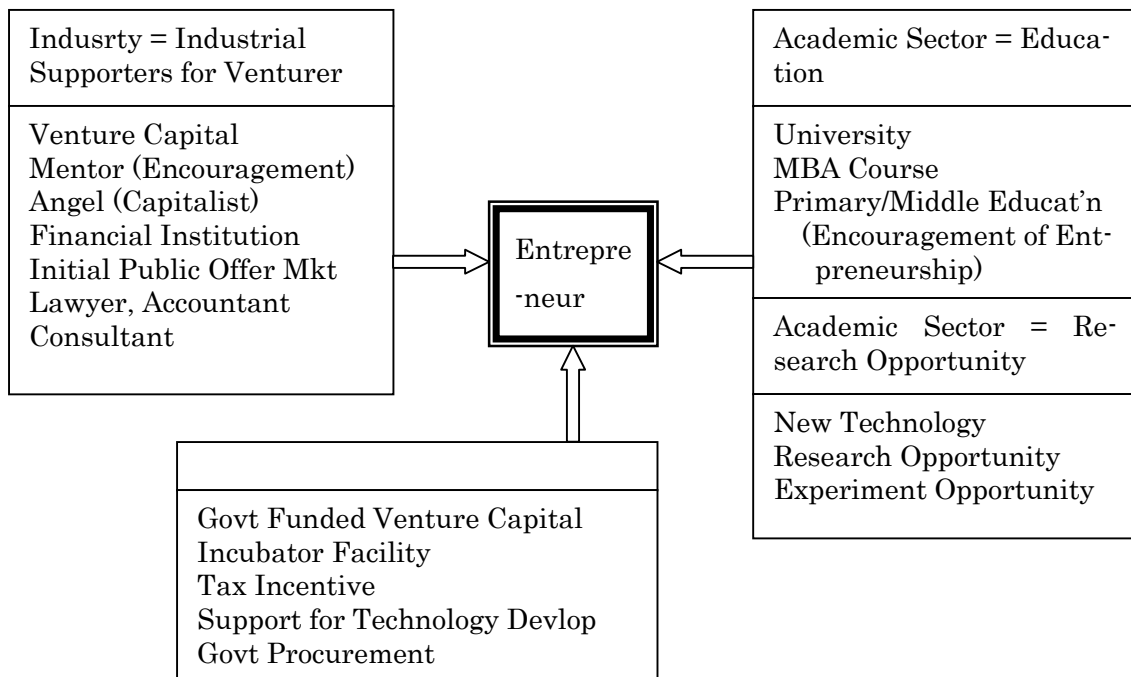
Silicon Valley is famous for its concentration of high technology industry. Based on the highly advanced information technology, in the industrial sectors other than high technology, new venture businesses are given births one after another and making themselves as the driving forces of industrial promotion of the nation. The nation has seen substantial number of successors coming out of such competition. Many of those successors have attained the status of the dominant position by growing through listing of their equity shares at the initial public offering market such as NASDAQ. Behind those success stories, one should note that there exist vast number of venturers making challenges for entrepreneurs, a great number of whom experience a bitter ending. The society gives warm hands to those drop-outs for repetitious trail for challenge.

The supporters for the venturers are classified into the three categories of the industry, the government and the academic sector. The industry is composed of various supporting services providing assistances to venturers, primarily in providing finance and advisory services for business management. To be more specific, the function of fund provider is carried out by the venture capital, angel, the benevolent fund provider, and the credit institutions. The academic sector is playing the important role in providing the entrepreneur education as well as the provision of technical research. Lecturers at the universities are embracing substantial interests in venture businesses and the cooperative relationship between the universities and venture businesses is helpful in promoting entrepreneur endeavors. Finally, the different levels of the government, federal, state and municipal are providing supports to venturers in advisory services, support in technological development, financing in addition to the support through offering of opportunities for government procurement. The overall program for venture support is managed by the Small Business Agency who carries out the well known programs such as; Small Business Investment Program providing investment capital for venturers and Small Business Innovation Program providing preferential procurement opportunities to venturers.

The needs for support of venturers vary depending upon the stages of their development. During the period of preparation stage of start-up, giving encouragement and motivation is mostly needed while much less is needed for capital. Then comes the next stage of period during and immediately following incorporation when initial seed capital is in absolute need and advice for business start-up and technology to be applied becomes issue of critical concern. The third stage of rapid growth comes next when large amount of capital and working funds are needed, managerial know-how and internal control of the expanding institution becomes the most important issue. Entrepreneurs reaching the stage of rapid growth should be able to attract funds from private venture capital or financial institutions, and therefore, what is required of the government funded venture capital is to meet the capital needs of venture businesses which are at the stages of preceding to or immediately after incorporation.

Those supports needed for different stages of growth cannot be met by venture capital alone, instead require joint efforts by industry, legislature and academic sector together. At the outset prior to the incorporation, functions of “mentor” giving encouragement to entrepreneur is deemed extremely important. Next comes the period when venturers need support in business planning, human resources, information, finance which will be provided by “angel”, benevolent provider of the seed capital. The concept of the tripartite support can be described as follows;

Figure 3-4 Concept of Tripartite Cooperation for Entrepreneurs



(Source) JICA Study Team

(3) Venture Capital Funded by Government

1) Purpose of Venture Capital Funded by Government

- While private venture capital makes investment into fast growing enterprises and target realizing capital gains by selling the equity investment at market, government funded venture capital places its primary target upon hatching and nurturing new business initiated by entrepreneurs.

2) Objects for Support

- Eligible enterprises are in the strategic sector designated by the government and are at the stages either prior to or immediately after incorporation.
- Government shall facilitate development of incubator facility with which the synergy effects should be expected of the venture capital.

3) Capital Participation

- Capital participation shall be made either by purchasing shares or convertible bonds.

4) Shareholding Ratio

- Shareholding ratio by the Venture Capital shall be determined depending upon the state of business conditions or its perspective for growth, which used to be seen in between 15~50% in Japan. The ratio should be maintained at less than 50% in order that managerial responsibility should be kept by the entrepreneur himself.

5) Involvement into Management by Venture Capital

- Venture Capital's involvement into corporate management depends upon the percentage of shareholding. During early stage of operation, enterprises often lack managerial capability for which Venture Capital is expected to give strong support with positive intervention.

6) Disposition of Shares Held

- Disposition of the equity shareholding by Venture Capital remains an important issue. Aside from the establishment of the stock exchange under preparation now, a separate equity market specifically designed for public offering as well as the secondary trading of the shares issued by venturers should be established. Up until such market is organized, disposition of shares have to be made through bilateral contract with the third party investor.

7) Fund Raising for Venture Capital

- As the Venture Capital's investment is limited within the domestic enterprises, estimated volume of the Capital may not be large. Besides, the Capital is associated with substantial extent of risks which is beyond normal private investment and may not be suitable for bringing in private funding from the early stage. During such period, the Capital should be funded by the state budget.
- Government has announced lately the establishment of the Equitization Assistance Fund utilizing the funds from sale of equities owned by the government in the state owned

enterprises. Being viewed from the macroeconomic industrial structure, there exist persuasive reasons to utilize a part of such sales proceeds of the state owned equities to fund the Venture Capital.

(4) Institutional Set-up of Government Funded Venture Capital

1) Governing Law

- There exists no clear-cut governing law regulating venture capital in Viet Nam. Regulations concerning finance company provided by the Law on Credit Institutions may be applied but a lot more rules and regulations have to be made clear for the Venture Fund to operate in the country.

2) Supervision by the Government

- The Government Funded Venture Capital shall be placed under the auspice and supervision of SME Promotion Agency and be operated in close coordination with SME Finance Corporation. Through such cooperation, the Venture Capital may have access to various data on SMEs and individual corporate data-base. In addition, both institutions can join together to provide both equity and debt to a target enterprise, should it be deemed necessary and justified.

3) Organizational Set-up

- Estimated magnitude of staff of the Venture Capital at the start-up shall be about 20~30 staff.
- Viet Nam has no experience of Venture Capital and no professional staff is available in the country. For recruitment of key staff for the Capital's management, selection should be made through international horizon so as to pick up right most professionals.
- A critical factor for the success of venture capital lies in the appraisal of investment target and effective management control. From the standpoint of investment at the early stage of venture business, function should be equipped at the Venture Capital where thorough analysis and appraisal will be carried out with complete perspective and projection for future corporate management.

4) Estimated Volume of Investment

At the early stage of establishment, the Venture Capital will provide investment about 10 entrepreneurs a year, with average appraisal period for 3~4 months and magnitude of investment for about 13 billion Dong (about US\$ 1 million), assuming average capital of 3.0 billion Dong and shareholding ratio for less than 49%.

(5) Schedule of Establishing Venture Capital Funded by Government

The following is the anticipated scheduling for establishing government funded venture capital, once a preparatory committee is composed among government offices concerned and will proceed with different steps for materialization;

- 1) Feasibility study to be completed-----2000. 6
 Identification of entrepreneur's needs, fund raising source, viability of venture capital
 Management, recruitment of professional staff, etc.
- 2) Government study, preparation of laws & regulations-----2000.12
- 3) Preparation of organizational set-up----- 2001. 6
- 4) Articles of incorporation, by-laws, manuals, etc.-----2001.12
- 5) Establishment of headquarter & office, staff recruitment----- 2002. 6
- 6) Completion of computer system----- 2002. 9
- 7) Staff training, training for agency lending-----2002.12
- 8) Inauguration of business----- 2003. 1

4. CREDIT GUARANTEE SYSTEM

4. Credit Guarantee System

In reforming the Viet Nam's economic systems, the urgent and the most important tasks are to nurture SMEs (small and medium enterprises) and to reform and reorganize financial systems, which lay in the core of the support of SMEs.

The credit guarantee system to be established in Viet Nam is a new strategic system having much expectation from various aspects including 1) nurturing existing and new SMEs in wider dimensions, 2) promotion of loans to SMEs from existing and new financial institutions, 3) support of public organization's SME measures.

In this study, a draft proposal for a model plan for establishment of "Viet Nam Credit Guarantee Fund", which is based on the principles of the credit guarantee system, to be useful for promotion of SMEs in Viet Nam and to fit into the economic and social systems of Viet Nam, has been prepared.

The study this time has carried out a basic preparatory work needed for construction of the framework of the credit guarantee system. For this purpose, a seminar to introduce the participants, who were mostly involved in the development of initial plan for the system was held. Also, through individual meetings as well as the seminar, opinions, aspires and questions regarding the establishment of this system, mainly from the ministries and other organizations concerned were acquired.

Based on these activities, overview of the credit guarantee system to be implemented, its pro-forma plan and its orientation are summarized here, with the expectation for early introduction of credit guarantee system in Viet Nam.

Also, through this study, 150 credit guarantee system related terms were translated in Vietnamese, which are to be used as common terms in developing and implementing the system, since the system is to be newly build in Viet Nam.

4.1 Concept of Credit Guarantee System

Since the credit guarantee system is a new system in Viet Nam, it is necessary that the basic concept of the system is understood.

The credit guarantee system is not merely to provide credit guarantees to SMEs. The system is to find and assess the SMEs' comprehensive credit worthiness, energy and potential for development through the professional know-how of the credit guarantee organization. This involves aggressive works to find the latent credit capability of the SMEs to help them utilize the financial institutions and to facilitate a smooth flow of financing for them.

Finance is the blood for the country's economic society. Wherever economic activities take place, they are accompanied by financial systems. The smoothness of financing business operation is, therefore, a basic requirement for the country's economy. Also, it is common to any country in the international society to be equipped with the function to realize appropriate lending operation of financial institutions through analysis of the various SMEs' business substances, examination of their capabilities, and credit guarantee for them.

Moreover, credit guarantee work is closely related to local communities and people's daily life there. The staff of credit guarantee organizations are required to keenly aware that their work directly relates to the development of Vietnamese economy as a whole.

4.2 System of Credit Guarantee

Credit guarantee is to examine and evaluate the credit worthiness of SMEs, to guarantee their credit to financial institutions for their financial obligation, help realize loans to them, and, in case of some financial troubles, make subrogation of their financial obligations to the financial institutions for the SMEs.

4.2.1 Three Parties Concerned in the Credit Guarantee System

The parties concerned for the credit guarantee work are three: SMEs, financial institutions, and credit guarantee fund. Because of the public nature of the credit guarantee, the government is, in many cases, involved in the credit guarantee operation as an investor or a supervisor. Then, a basic agreement is to be made among the three parties concerned to realize loans and credit guarantee.

Between SMEs and credit guarantee fund: Credit guarantee consignment contract.

Between financial institutions and credit guarantee fund:

Agreement of credit guarantee transaction and guarantee credit agreement (for each credit guarantee)

Between financial institutions and SMEs: Agreement of bank transaction and loan agreement (for each credit guarantee)

4.2.2 Credit Guarantee System

1) SMEs who seek loans from financial institutions by using the credit guarantee systems are to send its application for guarantee to such places as credit guarantee fund, financial institutions, and organizations for SME advisory services. 2) After receiving the application for credit guarantee, the credit guarantee fund is to carry out comprehensive survey and screening of the credit worthiness of the SMEs. 3) When the SMEs are judged as appropriate to guarantee its credit worthiness, the credit guarantee fund accepts guarantee to financial institutions for the SMEs. 4) The financial institutions are to give the loans to the SMEs immediately after receipt of the request from the credit guarantee fund. 5) The SMEs are to utilize the operating capital being loaned, and is to return the loans in accordance with the payment conditions. 6) When the SMEs have a difficulty in paying back the loan because of some troubles occurred, the payback of the loan can be postponed or the payment condition can be changed. However, being requested by the financial institutions, the credit guarantee fund is to make payment in subrogation on behalf of the troubled SMEs. At this stage, the SME's liability to the financial institution is to be diminished, and the credit guarantee fund is to get the

rights of indemnity to the SMEs. (In case of partial guarantee system, credit guarantee fund will share the rights of indemnity with the financial institution)

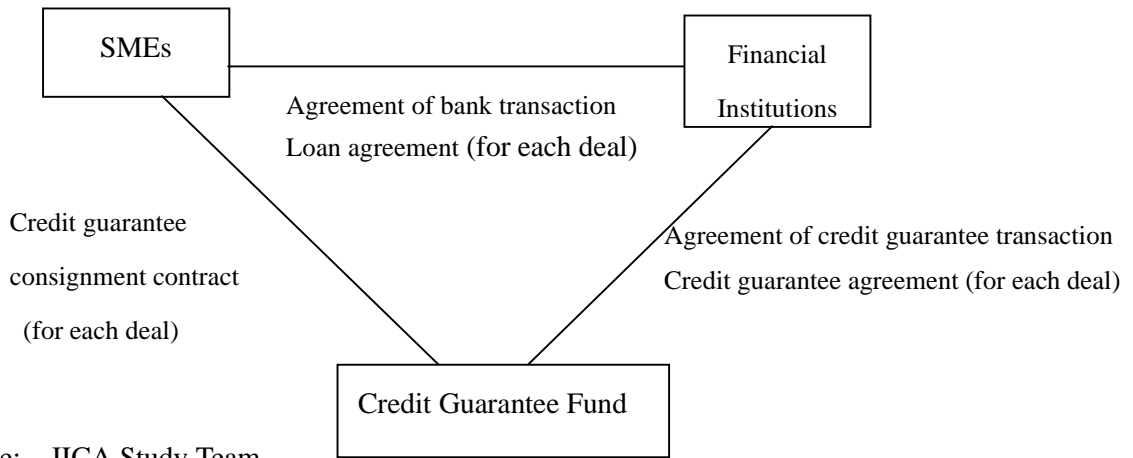
After that, the relation between the credit guarantee fund and SMEs will be left. 7) The credit guarantee fund is to assist the recovery of the SMEs and also to continue the collection of the loans in a long run. The credit guarantee fund is to amortize the remaining guarantor's right of indemnity by using their own capital after finishing a specified period and evaluating the final loss from the SMEs.

The business of the credit guarantee fund focuses on the following three:

- 1) Credit appraisal work: Evaluation of SMEs' credit worthiness, comprehensive analysis of financial situations
- 2) Management work during the specified period: Constant monitoring of the credit guarantee obligations, management support to SMEs.
- 3) Long-term payment collection plan of management of guarantor's right of indemnity, support of SME's recovery

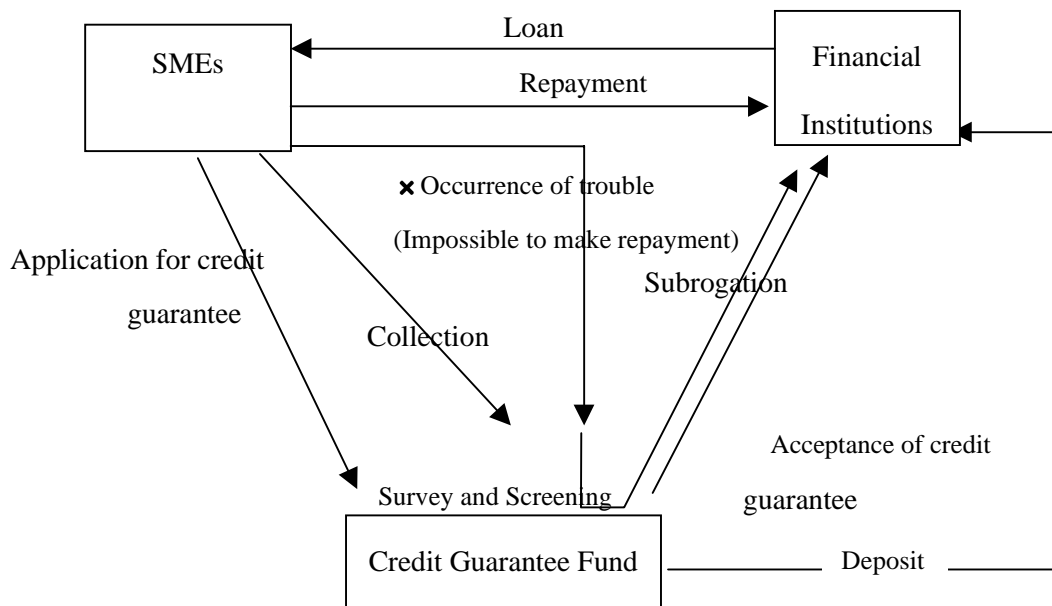
To realize these credit guarantee system in a rational and effective way, the management division of the credit guarantee organization should be equipped with sufficient flexibility in operation, and with computers and network environment. In addition, since this business is to be involved with financing and credit of companies, the high level of ethics, justice and strong commitment to the missions are required.

Figure 4-1 The Contract Relationship among the Three Parties Concerned in the Credit Guarantee System



Source: JICA Study Team

Figure 4-2 Flow of Credit Guarantee System



Source: JICA Study Team

4.3 Expectation for Establishment of the Credit Guarantee System in Viet Nam

In Viet Nam, planning, study, and trials for establishment of credit guarantee system had been carried out for several years. In more recent years, policies to open up its markets have become more full-scale in nature, and it is required to achieve a deregulation of trade by the year 2006 in view of its participation in AFTA and applications to attain membership of the WTO. Thus, expectation has placed on rapid realization of various plans for the sound development of the domestic economy and particularly the SMEs who are expected to play an important role in the economic promotion in the country.

Among the measures to promote the development of the SMEs, the establishment of credit guarantee system, which has been in progress in other countries, has attracted much attention in Viet Nam. And the establishment of the credit guarantee fund has been much awaited as an effective way to foster SMEs for economic development and for circulation of financing into SMEs.

In order to shift the Viet Nam's economic structure from the planned economy to the new market economy, it is expected to nurture and make sound development of various types of, and large number of, SMEs, and to establish and organize financial institutions to provide SMEs with business fund. And also a new SME policy making and support body is expected to be established. The establishment of the credit guarantee fund is, therefore, to meet such expectations of economic society in Viet Nam.

Currently, the credit guarantee fund is in the stage of actual implementation and considerable expectation has been expressed by organizations concerned such as MPI, MOF, State Bank of Viet Nam (SBV), and industry and union associations (VCCI, VICOOPSME) during the course of this study.

The Vietnamese government formed a committee for SME development system and policy in May, 1999 among ministries and agencies concerned. The research group is to discuss SME related measures in Viet Nam, and to report to the prime minister. In the core of the SME related measures of this research group, the credit guarantee fund is positioned, and the establishment of the credit guarantee fund has been entering into the final stage.

Also, in Viet Nam, there were two trials carried out for the credit guarantee system. One was the trial with the support of the Deutsche Friedrich Foundation in the traditional folkcraft village in Bac Gian Province (investment of US\$100,000). And the other was a credit guarantee fund within the Incom Bank (investment of DM1,500,000) to assist Vietnamese people returning from Germany to find employment opportunities. These two were precious experiences for Viet Nam to help launch the credit guarantee system in the country.

4.4 Basic Elements of the Credit Guarantee System

In terms of socio-economical demands, the following five items are to be considered as basic elements of the modern credit guarantee system.

A public organization operating nationwide

Fostering SMEs and smooth circulation of SME financing are expected to be promoted not in the limited range, but in the nationwide scheme. For this purpose, the credit guarantee organization is expected to be designed as an entity which aims at creation of nationwide network. In addition, it is desirable that the credit guarantee organization is to be established as a public organization approved by the special laws or government ordinances.

Independent and dedicated organization to carry out appropriate credit guarantee

To investigate and screen the credit worthiness of various and a large number of SMEs, the organization needs to be equipped with special knowledge and skills for the work. The credit guarantee fund is, therefore, to be established as a dedicated entity for credit guarantee, limiting the handling of secondary works to the minimum level.

Also, at the process to meet the requests of both SMEs seeking credit guarantee and financial institutions seeking entities for offering loans, there is a possibility for the credit guarantee fund to cause some moral hazards, such as giving convenience and having too close relationship with specific entities and causing organizational corruption. Therefore, it is necessary to keep rational and fair treatment to both of financial institutions for negotiation and SMEs for their management after credit guarantee. Also, the credit guarantee fund is required to train their staff voluntarily and independently to fulfill their responsibilities, and to develop their skills for their mission.

Making the credit guarantee business as their specific field and fulfilling their responsibilities in the business are the two sides of the operation of the credit guarantee fund.

Fully available to both SMEs and financial institutions

The credit guarantee system is basically to foresee potential troubles and financial risks of SMEs from their difficult managerial environment or unstable financing to SMEs. Facing such risks, the credit guarantee fund is, first, to make an appropriate level of guarantee to the SMEs, being based on the fund's investigation and screening of the SME's credit worthiness. Second, the credit guarantee fund is to reduce the risk by expanding the field of credit guarantee, being based on the law of large numbers. That means that the credit guarantee fund can reduce the risk as a whole if the fund deals with the large number of entities. The expansion of the credit guarantee activities is basically implemented by opening up the opportunities to use the credit guarantee system to wider range of SMEs and financial institutions, and by providing contact points nationwide for utilization of credit guarantee system.

For the time being until the system is fully in place, the operation of the credit guarantee fund is to be a phased and selective one. The operation in the first stage is to be developed strategically, and to be expanded nationwide soon.

Setting of effective ratio for maximum guarantee and holding of large amount of liquid assets

To secure a certain position in the financial society, the credit guarantee fund needs to secure their credit itself. One of the ways for it is to clarify the limitation of their credit guarantee capability, which means to prescribe the maximum amount available ratio of guarantee. The credit guarantee fund accepts credit guarantee of the entity, limiting the appropriate ratio of maximum guarantee to a certain ratio of its own capital. When one is divided by the maximum amount available ratio of guarantee, that leads to the upper limit of the ratio of trouble occurrence. The prescription of the maximum amount available ratio for guarantee is to let the wide range of people concerned to know the limit of acceptance of credit guarantee by the credit guarantee fund, and the limit of self-treatment of troubles.

The second way is to keep a large amount of own fund. That is why the credit guarantee fund is to be established by receiving a large amount of public funds. The funds are required to keep the high level of liquidity in order to make subrogation securely and swiftly in case of troubles. Also, the credit guarantee fund is prohibited to make investment and speculative activities to the entities other than the ones for credit guarantee.

To be concrete, the holding capital of the credit guarantee fund is to be deposited at the designated financial institutions as a time deposit. The deposit is evaluated by the financial institutions as a fund backing the credit guarantee, which helps increase the credit of the credit guarantee fund itself and helps make the financial institutions utilize the credit guarantee system more actively.

Organization with competent and ethical personnel

The basis of the credit guarantee fund is the personnel to be working at the organization. The core of the credit guarantee work is to find and screen the credit worthiness of SMEs while utilizing one's ability to have insight, make analysis, and bring judgement. Also, a human skill is necessary to work with the SMEs in guiding and supporting. No moral hazards should be caused. The success of the credit guarantee fund owes to such personnel, but it is also the responsibility of the credit guarantee fund to train such personnel to enhance the level of their capability and maintain the personnel's developed skills and expertise.

In consideration of the credit guarantee system in Viet Nam, it is necessary to think about the above mentioned basic but universal requirements. If the credit guarantee fund to be established does not reflect the actual status of the social system and financing and industrial conditions in Viet Nam, there will be no reason to establish the credit guarantee fund there.

In fact, each country has been making various efforts to make its credit guarantee system fit into their economic environment and economic policy measures as they have deployed the modern credit guarantee system there.

For example, in Europe where the credit guarantee system was originated at the beginning of 20th century, the credit guarantee system was a self-structured system based on the industry union. In Japan who has imported the concept of the credit guarantee system from Europe, however, the system has become an open-structured one having nationwide operation. Because of such distinction, there is a big difference in the amount of dealing between Europe and Japan. There are three types of the credit guarantee system available nowadays. First, the European type which attaches importance to the individual diagnosis of enterprises. Second, the Japanese type which has been developed as a policy-implementation organization

realizing 100% guarantee to the enterprises. Third, the developing country type which carries out partial guarantee to enterprises. In addition, as a reassuring system of credit guarantee, reinsurance by the government and credit insurance have been in development. In the US and European economic blocs, financial insurance and credit insurance has been used to supplement credit instead of credit guarantee.

By studying various systems in such countries as well as analyzing the current status in Viet Nam from various ways and in a structured manner, the realistic and meaningful credit guarantee organization can be established as the best way system as of today.

Table 4-1 Comparison of Credit Guarantee Systems in Major Countries

Country name	Organization name (Abbreviation)	Guarantee ratio	Credit guarantee fee ratio	The annual amount of deal cases	Re-supply, etc.	
(Europe and US.)						
GERMANY	KGG	80% ~ 90%	0.5 ~ 1%	7,886(1994)	Re-guarantee by the government: 20%	
AUSTRIA	FGG	85%	0.6%	4,687(1995)		
SWITZERLAND	GB	100%	0.5 ~ 2.25%	671(1993)		
FRANCE	SOFARIS	50% ~ 100%	0.4 ~ 0.6%	6,647(1994)		
ITALY	CGS	50%	1 ~ 1.5%	1,827(1994)		
G.BRITAIN	DTI(Govmt.)	70%	1.5%	7,484(1995)		
NETHERLAND	MEA(Govmt.)	75% ~ 100%	-	3,533(1994)		
SPAIN	SGR,SCM	100%	1 ~ 4%	9,542(1995)		Re-guarantee by enterprise: 50% Re-guarantee by government financial corporation: 50%
BELGIUM	MGC	80%	0.25 ~ 0.75%	3,723(1993)		
U.S.A	SBA(Govmt.)	90%	0.25 ~ 2%	599(1995)		
CANADA	ISTC(Govmt.)	50% ~ 90%	1 ~ 2%	383(1994)		
(Asia)						
INDONESIA	PT-ASKRINDO	70%	0.65%	59,720(1996)	Re-assurance by government financial corporation: 70%	
	Perum-PKK	90%	1.5 ~ 6%	5,984(1996)		
MALAYSIA	CGCMB	70% ~ 90%	0.5 ~ 1%	14,965(1996)		
NEPAL	CGCN	75%	1 ~ 8%	47,856(1996)		
PHILIPPINES	GFSME	60% ~ 90%	1.8 ~ 3%	252(1996)		
	SBGFC	50% ~ 100%	-	422(1996)		
SRI LANKA	CBSL	60% ~ 90%	1%	-		
THAILAND	SICGC	50%	2%	237(1996)		
TAIWAN	SMBCGF	100%	0.75%	100,952(1996)		
KOREA	KCGF	100%	1%	144,274(1996)		
	KOTEC	100%	1 ~ 1.5%	40,359(1996)		
JAPAN	CGC	100%	1%	1,562,514(1996)		
				2,235,638(1998)		

Source: NFCGC: Japan 1997 (Credit Supplementation Systems in ASIA & EUROPE, NORTH AMERICA)

Note: In Thailand, the improvement of the credit guarantee system has been taking place in 1999. (The guarantee ratio: 80%)

4.5 Overview of Viet Nam Credit Guarantee Fund(VCGF)

4.5.1 External Environment to be Considered for Setting up of Credit Guarantee System

It is necessary to form the Viet Nam Credit Guarantee Fund which fits into the current situation of Viet Nam and meets requirements of various systems of the economic society there. The following are the environmental backgrounds to be considered for the establishment of the credit guarantee system.

Rapid increase of SMEs in Viet Nam

In Viet Nam, enterprises are roughly divided into two groups: One is a few state-owned enterprises and corporate registered SMEs, and the other is latent, and a large number of household industries. One of the major task of the economic measures is to develop interactions among the groups. In particular, fostering of SMEs is much expected because of such factors as division of the state-owned enterprises, increase of SMEs and nurturing of the household industries into SMEs. Fostering of SMEs will, therefore, form a new structure in the Viet Nam's industrial structure model, and the development of SMEs is anticipated. In such situations, the Viet Nam Credit Guarantee Fund is expected to play a role to nurture and enhance such SMEs and to promote the investment of operational fund to them.

Diversified financial institutions in Viet Nam

In Viet Nam major business plan has to be approved by the government, and the capital investment is to be decided in accordance with the approved business plan. The major player in enterprises is the government. Major financial institutions are also owned by the government, playing a treasury department-like role of public works. The use of funds to be offered by the financial institutions are mostly limited to capital investment.

The network of financial institutions is not wide enough. Among the national banks, only the Incom Bank and the Agriculture Bank have the nationwide network connecting all of their branches. Because of such insufficient banking network, financial institutions do not have business transaction with most of SMEs and household businesses which are widely located in various regional areas, and do not manage the savings of the household industries which have been kept in the individual's houses.

When the opening of the economy structure is advanced, however, such situation will be changed. There will be many banking groups who carry out saving business and loan business in a well-balanced manner. In the business of financial institutions, the loan of operating fund will be accelerated in parallel with the establishment of bill buying system, which will lead the financial institutions to be socialized. For these newly established financial institutions, the credit guarantee fund will be an ideal system to connect them to their new customers for their lending operation.

Improving industrial policies in Viet Nam

In the midst of reform in the social structure, it is clear that the government authority's function and their guidance become important. On one hand, daring attempts are required to go through the reform. But on the other hand, minute care and consideration are also necessary for the change of the situations. Under such circumstances, it will be much more necessary than today to enhance social functions and systems to flexibly cope with the situations through the wide network covering up to the very end of the economic society. In this point, the credit guarantee system is anticipated to be an organization which meets the new requirements of the society, not only for economic promotion but also for public welfare and measures to deal with occurrence of disaster and emergency.

Taking such a current situation of Viet Nam into consideration as a preposition, a basic model of the newly build Viet Nam Credit Guarantee Fund is constructed for reference of future studies about the new system construction.

4.5.2 Basis Nature of Credit Guarantee System

The establishment of a credit guarantee system in Viet Nam is being studied as a core element in the SMEs policies. Thus, the basis of credit guarantees in this case is limited to credit guarantees for business operational fund liabilities of the SMEs (functionally, joint guarantees).

The current system of financing in Viet Nam is mostly for capital investment and financing for capital equipment. Also, the constant and massive financing for working capital is a task in the future. Having such a background, it is practical to make the newly established credit guarantee system an open-end type system covering all kinds of business funds.

- (1) Loans and bill discounting are to be covered.
- (2) Transfer of exiting obligations, speculative money, re-loan money, and cost of living are not to be covered.

4.5.3 SME Sectors to be Covered

The basic concept of the credit guarantee system is to expand its range of coverage and provide massive financing covered by credit guarantees including sound lending not likely to encounter risk (default). It must enhance money circulation and it must implement the law of large numbers principle (expand lending covered by the credit guarantee system and reduce its risk rate) and make provisions to counter risks. Consequently, expansion and opening up of its coverage range (SMEs and financial institutions) are essential conditions.

In addition, it is also important to effect strategic utilization of the system to nurture the growth of designated industries within the economic opening up phase. This is also one advantage of introducing this system. It is realistic to set the scope as wide as possible in principle, but to limit its actual scope for the time being.

- a) Limits set on the SMEs

The system will have to respect and conform to the definitions set out in the SME basic law currently being put in place, i.e. enterprises with capital of less than 5 billion Dong or a work force less than 200 people. However, it is desirable that the scope should be expanded by using modifiers such as “or”, etc.

b) Industrial sectors covered

The sectors to be covered should reflect relative ordinances. Preparing a list of sectors to be covered by the credit guarantee fund (VCGF) and deciding on which are appropriate is also one approach.

c) Preferential treatment

Consideration should also be given to preferential credit guarantees for strategic sectors (pinpointed in national projects) such as high-tech venture related enterprises, export product manufacturing enterprises, sectors creating employment, industries related to regional agriculture and sector manufacturing traditional folkcraft products, as well as provisions for unanticipated disaster relief.

* However, regulations are needed to exclude sectors causing social problems.

4.5.4 Financial Institutions to be Covered

At present, financing in Viet Nam is mainly carried out by the state-owned banks. However, in the very near future, private banks and various other financial institutions are expected to become popular. If the various financial institutions come to actively engage in providing loans for business funds of the SMEs, the scope of activities of the credit guarantee system will expand rapidly. This is the reason for deciding to provide credit guarantee coverage for all the financial institutions in Viet Nam. However, it would be better to start the system with the limited coverage in the initial stage.

Also, it would be mutually beneficial to work in parallel with the establishment of SME Financial Cooperation (Refer to the section of SME financing).

In addition, it would be better for the time being to designate the financial institutions who provide credit guarantee. By designating a limited number of financial institutions, it is expected that appropriate conditions to be attached to loans with guarantees, cooperation in screening, and impartiality in management of guaranteed liabilities. In return, the credit guarantee fund would deposit some of its funds in these designated financial institutions.

Through such cooperation between them, it is expected that the partnership relationship in establishment of the credit guarantee system will be fostered.

4.5.5 Credit Guarantee Rate

In the world of finance, the *raison d'être* of credit guarantee systems is to provide credit guarantees to individual enterprises or small scale organizations who are unable to obtain credit guarantee coverage elsewhere.

On the other hand, it is important to make measures to avoid risks. Also it is considered to be effective in terms of risk management for the credit guarantee fund to share risks with financial institutions. For this purpose, in most of the countries who have introduced the credit guarantee system recently, or who have been having immature financial structure, the credit guarantee system with partial guarantee has been developed.

In introduction of such a partial credit guarantee system, sufficient caution and prudent care are required to recognize the independence of the system and its responsibilities, since the credit guarantee organization and financial institutions are supposed to share responsibilities.

In the establishment of this system, Viet Nam is showing a tendency to place expectation on the creation of a partial credit guarantee system as a measure to prevent risks and moral hazard of newly emerged financial institutions. The system for Viet Nam can be started with the partial guarantee.

The measure to prevent risks depends on, basically, capability and appropriateness of investigation and screening capability of the credit guarantee system. In this sense, it is considered to be an internal issue of the credit guarantee system per se, and early establishment of the credit guarantee method is awaited. Meanwhile, as supplementary measures by other organizations, loss compensation by the government, collateral investment by financial institutions, and reinsurance can be envisioned. However, these will be future measures to be implemented at the next stage, being based on the achievement of the current stage works.

4.5.6 Maximum Amount Available Ratio for Guarantee

One social benefit coming from a credit guarantee system is the high rate of fund efficiency. An injection of one billion dong into a credit guarantee fund can be managed by the fund at a ratio of $\times 10$ in terms of maximum amount available ratio. If the fund can minimize its risk factor, it can offer new loans of 10 billion dong to the SMEs. However, on the other hand, if the credit guarantee fund underwrites larger amount than its capacity allows, it would immediately fail under the weight of this burden. The decision on the maximum amount available ratio is the most important management guideline for a credit guarantee fund, and it demonstrates the creditworthiness of the credit guarantee fund. Consequently, the credit guarantee fund must undertake cautious and prudent analysis of its own operations and take into account its overall business operation plans, set up an appropriate ratio for maximum amount available, specify it in its articles of corporation, and keep it into effect.

The maximum amount available ratio of a credit guarantee fund should be set at about 10 times its own funds (including funds injected by the government). Thus, at a ratio of $\times 10$, if the risk (trouble) of 10% happened to the borrower, it is still possible for the fund to pay out the full amount. This should also be clearly explained to all concerned. At the same time, this also means the fund is to insure the borrower's sound management conditions with no risks greater than 10%. (In the case of Japan, the ratio in the article of corporation is $\times 60$ and the actual ratio is $\times 50$. This means that a reverse calculation shows that the risk rate does not exceed 2%.)

The setting of the initial maximum amount available ratio of the Viet Nam credit guarantee fund should be decided according to the future balance in the credit guarantee operations, and

this is not foreseeable at present. However, caution and prudence should be exercised in the setting of this ratio since this is a vital guideline for the operation of the system.

4.5.7 Credit Guarantee Fee Rate

The credit guarantee system to be introduced as a new system in Viet Nam seeks to make the new field of providing credit guarantees into a business operation. Therefore, the concept of a credit guarantee fee that would constitute the revenue of a credit guarantee fund is also a new concept, in Viet Nam.

The credit guarantee fee is different from other fees such as interest, research fees, commissions, insurance premiums and registration fees. It is an independent system being used to provide a revenue source for the operation and maintenance of a credit guarantee fund.

In concrete terms, an examination of the credit guarantee fee shows that it is made up of the total of the expenses of the credit guarantee fund (wage costs and non-personnel expenses), losses on credit guarantees (the sum obtained by subtracting the amount recovered from the amount paid out) and various accumulative reserves (reserves used to continue to carry out credit guarantee operations) minus the interest revenues earned by placing its own funds (basic assets, etc.) in banks. This credit guarantee fee will be levied on the SMEs which use the credit guarantee system.

Thus, the maximum amount available rate is based on the actual operation of the credit guarantee fund. However, at the beginning of the establishment of the credit guarantee fund, this will be based on an estimate to be decided politically. In order to minimize the burden on the SMEs that use the credit guarantee system, in many cases, the fee rate is set at a low level intentionally. It is necessary to study the systematic structure of the credit guarantee fee, which comprises the basic fee rate and a discount fee rate which differs depending on the target organizations.

Provisional calculation of the credit guarantee fee rate (estimated by the approximate value of business scope at the startup.)

Expense + credit guarantee loss rate (risk rate x non-recovery rate) + reserve) – interest on savings deposits = the credit guarantee fee rate

$$2.5\% + 0.5\% (1\% \times 50\%) - 1\% = 2\%$$

Scale

Fundamental assets: 10 million dollars

Scale of credit guarantee: 100 million dollars = actual maximum amount available ratio: x 10

Expenses:

Costs: 2.5 million dollars = 5 places, (500 people, with computer equipment)

Guarantee loss: 0.5 million dollars = risk rate 1% (for the first year. Normal rate at 2%)

Reserve: = zero for start-up

Income:

Interest: 1 million dollars = annual interest 10%, equivalent to 1% of the initial guarantee rate

Credit guarantee fee: 2 million dollars = annual rate at 2%

4.5.8 Nationwide Operational Organization

Viet Nam's credit guarantee fund is a public body. Therefore, it is presupposed to become an organization covering the entire nation. At the beginning, however, it has to limit its operations to the main regions, but it will be expanded by stages, intending to cover the entire country in the near future. The credit guarantee fund is a information service organization, so that the construction of the computer network is a prerequisite for its operation.

(1) Head office organization: Hanoi (Overall control)

(2) Branches: Hanoi, Hai Phong, Da Nang, Ho Chi Minh City, Don Nai, Kanto, etc.

*The makeup of the organization may be changed by the operational body (competent ministries). If a SME specialist administration body, currently being planned, is created, the credit guarantee fund will be related to this organization. Regarding the sales organization (branch organizations), consideration can be given to use the existing regional organizations and the People's committees. The important thing is to build up a nationwide organization as quickly as possible.

*Seeing from the Viet Nam's current financing situation being dominated by the state-owned banks, cooperation with SBV will be important seeing it as a related organization at the initial stage. The basic objective of the credit guarantee fund is to ensure that the massive amount of public funds to be injected are held safely and in a high liquid form. Therefore, some form of linkage with the SBV should be devised, as it is the body controlling these public funds.

4.6 Basic Plan Items of Viet Nam Credit Guarantee Fund(VCGF)

Preparatory work for the next stage has started based on the outline of Viet Nam's credit guarantee fund mentioned in the previous section. The following items indicate the main things necessary for the time being, and can serve as reference for the preparatory work. If it is necessary to obtain more comprehensive information, this could be done by inspecting the systems in other countries which have experiences.

- (1) Name: Viet Nam Credit Guarantee Fund(VCGF)
- (2) Legal background: Laws and ordinances
- (3) Competent ministries: Control by a single ministry, or joint control by several ministries
- (4) Corporation status
- (5) Competent authorities
- (6) Tax exemption
- (7) Management organization
 - 1) Status of staff
 - 2) Executives (management board)
 - 3) Office organization (scale/employment)
- (8) Operational organization
 - 1) Head office
 - 2) Branches (special branches)
- (9) Investment
 - 1) Fundamental assets (government investment, local government investment, financial institutions investment, internal funds)
 - 2) Long-term borrowing (Long-term low interest rate, semi-investment, borrowing from government, ODA funds, borrowing from central bank, borrowing from local government, borrowing from financial institutions)
 - 3) Fund holding

Time deposits in the financial institutions who provide credit guarantee.

 - *Floating funds ratio (60%)
 - *Prohibition of speculation and investment
 - *Limitation on holdings of securities (government and local government bonds)
- (10) Target enterprises for credit guarantee
 - 1) SMEs
 - 2) Scope of SMEs:

5 billion dong or less capital, or less than 200 employees
 - 3) Target enterprises
 - *Priority on strategic industry type for promotion of industries in Viet Nam
 - *Prepare the list of target industry type for credit guarantee.
- (11) Target financial institutions

Financial institutions handling credit guarantee

 - *Handling of special financial institutions
 - *Handling of foreign banks

*Prepare the list of financial institutions handling the business of the credit guarantee fund

(12) Laws and ordinances

1) Laws (Ordinances)

(purpose, corporate status, name, establishment, administration, credit guarantee operations, supervision, dissolution, liquidation, etc.)

2) Articles

(purpose, name, office, operations, maximum limit of the amount of guarantee, basic property (assets), structure of member of board, mergers, dissolution, remaining assets, etc.)

3) Business method statement

(Limit on credit guarantee, credit guarantee fee, discharge of credit guaranteed liabilities (subrogation), amortization of indemnity rights, application for credit guarantee, scope of financial institutions, etc.)

4) Accounting standards

(Accounting term, balance and reserve, accumulation of basic property, etc.)

Fund operating standards

(Reserve fund ratio, limitations on holding of securities, limitations on holding of real estate, computer equipment, investment in related companies, etc.)

Account title

(Property inventory, statement of income and expenditures, balance sheet)

Accounting method

Annual report

(13) Regulations

1) Regulations defining the duties of the staff

Wage payment regulations

Business operating code

2) Business letter and document regulations

(14) Business contracts/standards

1) Credit guarantee consignment contract (credit guarantee fund – SMEs)

(Consignment, credit guarantee fee, security (collateral), prior exercise of indemnity right, subrogation, scope of indemnity right, joint surety, jurisdiction, amendments, etc.)

2) Agreement of credit guarantee transaction (credit guarantee fund – financial institutions)

(Execution, coming into force, restrictions on the changeover of existing obligations, discharge of credit guaranteed liabilities (subrogation), effective term of discharge, exemption from responsibility, procedures, etc.)

3) Loan agreement (financial institutions – SMEs)

4) Agreement of bank transaction (financial institutions – SMEs)

(Scope of application, interest, damages, security, acceleration of payment, appropriation, exemption, etc.)

5) Screening standards

Credit guaranteed liabilities management standard

Indemnity rights management standard

Amortization standard

- 6) Business letter and document formats
- 7) Statistics

4.7 Long-Term Operation Plan

In establishing Vietnam Credit Guarantee Fund, it is useful to formulate and promote the long-term business plans regarding preparations, establishment, and actual operation of the fund.

4.7.1 Yearly Development Plan

While maintaining conformity and consistence with the overall SME promotion measures, it is expected that Viet Nam credit guarantee fund will be in full-scale operation in the year 2003 for the year 2006 when the Viet Nam's market economy will adopt an open policy internationally.

At the beginning, training in other experienced countries on computer skills are requisites for a few years.

- 1999: Basic ordinances, appointment of senior staff, confirmation of time schedule for the establishment
- 2000: Legal and financial plans, appointment of staff, overseas training, business plan, setting up of rules and regulations
- 2001: Establishment (Hanoi), overseas training, training of computer skills
- 2002: Actual establishment, nationwide organization, guest participation in ACSIC (Asian Credit Supplementation Institution Confederation)
- 2003: full operation, participation in ACSIC
- 2006: Financial expansion, independent management
- 2010: Review of legal systems

4.7.2 Assumed Scale of the Operation

The assumed scale of the initial stage operations of Viet Nam Credit Guarantee Fund will be changed in accordance with the overall form of the SME policies, possibility of massive injection of public funds, and the degree of expectation initially placed on the fund's strategic functions. The following is, however, the study models suggested at the moment:(These provisional simulations are applicable both to total guarantee and to partial guarantee system)

(1) Expenses

Personnel expenses (500 staff members at startup)

Facility and equipment cost (including computers)

Cost of offices (five locations) - Cost for establishment (C)= 2.5 million dollars

Loss rate (L) – (1 – risk rate 2% x recovery rate 50%) = 0.5 million dollars (The initial rate of L is calculated as 0.5%.)

(2) Income

Interest on deposits (I) (Fund (F) 10 million dollars x annual interest 10%) = 1 million dollars (equivalent of 1% of the scale of credit guarantee at the initial stage.)

Credit guarantee fee (P) (The scale of the initial credit guarantee (D) x 2%) = 2 million dollars (D = F x 10) (The maximum amount available ratio for guarantee)

Difference of income and expenditures (transfer to next year's fund assets)

$$(f) = (I + P) - (C + L) = (0)$$

- * The important coefficient is D (The scale of initial credit guarantee). D has a correlation with the estimated demand for credit guarantee (cooperation of financial institutions) and system to handle administrative work (The number of staff at startup). D is a basic parameter for the formulation of long-term operational plans starting from the next year.
- * In the initial plan, D is difficult to estimate. There are methods available to estimate D according to the ratio of guarantee while estimating the nationwide credit guarantee demand. However, at the time of start up, this method is not expected to produce accurate figures. Consequently, an estimate based on the capacity of the fund to process the credit guarantee applications at the startup time is made.
- * The target annual growth rate from the second year is 20% to promote the nationwide coverage of the credit guarantee system in the early stage. (From the fifth year on, the growth rate can be slowed down.)
- * The estimate of the business scope will be changed in accordance with the amount of public funds to be injected for the time being. This is a political issue, so the estimated scope in this proposal is based on that the minimum amount of the public fund injected.
- * The denominator for the calculation of ratio(%) is the average outstanding amount of credit liability

4.7.3 First Long-Term Operational Plan (The 5-year plan from the second year)

(1) Expenditure: (Total expenditure rate + loss rate (various reserve rate – to be omitted in a trial balance.)

(2) Income: (Deposit's interest rate + credit guarantee fee rate (fixed at 2%))

(3) Difference between income and expenditure (transferred to the basic assets and funds in the next year)

- * The plan is to be made by correlating these main items. Denominator is the average outstanding amount of credit liability.
- * The maximum amount available ratio for guarantee and the rate of credit guarantee fee are set at constant.
- * Deposit's interest is simply estimated by the annual actual interest in Viet Nam, 10%, multiplied by the basic assets.
- * Difference between income and expenditure is an estimated value (obtained by the scope of credit guarantee divided by the maximum amount available ratio for guarantee multiplied by the growth rate). However, at present, it is obtained by the calculation of the results of balance of payment.

Table 4-2 Provisional Simulation of VCGF (Model 1)

(Unit: US\$)

Item (rate %)	2001	2002	2003	2004	2005
Scale of guarantee and average balance of guarantee (growth rate at 20%)	100M	120M	140M	170M	200M
Average balance of indemnity right = final loss (growth rate at 20%)	0.5M	1.2M	1.5M	1.6M	1.6M
Basic assets and funds	10M	10M	10.4M	10.96M	10.96M
Personnel	500	500	800	800	1000
Offices	5	5	8	8	10
Income					
Deposit interest (annual interest at 10%)	1M	1.15M	1.04M	1.09M	1.09M
Credit guarantee fee (annual rate at 2%)	2M	2.6M	2.8M	3.4M	4M
Expenditures					
Expenses	2.5M	2M	3M	3M	3.5M
Final loss (annual rate 1%=risk rate at 2%,recovery rate=50%)	0.5M	1.2M	1.4M	1.5M	1.5M
Difference of income and expenditures (to be transferred to funds of next fiscal year)	0M	0.4M	0.56M	0M	0.09M

Source: JICA Study Team

Note 1. The maximum amount available ratio for guarantee: x 10. 10 million dollars are to be injected.

Note 2. After spending five years after the establishment of the credit guarantee fund, the system enhancement will be made such as through increase of the maximum amount available ratio for guarantee (expansion of the scope of guarantee) and re-injection of basic assets (public fund). Then, the credit guarantee fund will have the year of stability.

The research group for the establishment of the Viet Nam credit guarantee fund is investigating the establishment with a low rate of maximum amount available ratio for guarantee (x 5), by having the increased government fund and investment from financial institutions. The following is the model calculated based on the above conditions for reference. In this model, the ratio of maximum amount available for guarantee is low, which does not connect the funds with the operation with high loss. The premised ratio of trouble is 3%, slightly higher than model 1.

Table 4-3 Provisional Simulation of VCGF (Model 2)

(Unit: US\$)

Item (rate %)	2001	2002	2003	2004	2005
Scale of guarantee and average balance of guarantee (growth rate at 20%)	150M	180M	210M	250M	300M
Average balance of indemnity right = final loss (growth rate at 20%)	0.5M	2.7M	3.2M	3.8M	4.6M
Basic assets and funds	30M	30M	31.90M	33.14M	34.70M
Personnel	500	500	800	800	1000
Offices	5	5	8	8	10
Income					
Deposit interest (annual interest at 10%)	3M	3M	3.19M	3.31M	3.47M
Credit guarantee fee (annual rate at 2%)	3M	3.6M	4.2M	5.0M	6.0M
Expenditures					
Expenses	2.5M	2M	3M	3M	3.5M
Final loss (annual rate at 1.5%=risk rate at 3%, recovery rate = 50%)	0.5M	2.7M	3.15M	3.75M	4.5M
Difference of income and expenditures (to be transferred to funds of next fiscal year)	0M	1.90M	1.24M	1.56M	1.47M

Source: JICA Study Team, based on the assumption shown in Note 1, which reflects the content of discussion at the working group for “Establishment of Credit Guarantee System” under the Vietnamese government’s SEM Policy Research Committee

Note 1. The maximum amount available ratio for guarantee: x 5. 30 million dollars are to be injected.

Note 2. If the high amount of investment is realized as scheduled, this credit guarantee fund can have a firm, and more stable management infrastructure.

5. PROVISION OF INDUSTRIAL LAND FOR SMEs

5. Provision of Industrial Land for SMEs

5.1 Current Situation of Land Use by SMEs

5.1.1 Land System in Viet Nam

In December 1998, the Land Law was revised and it now states that the land of Viet Nam belongs to the people and it is placed under the central control of the government. The government can allocate or lease out areas of land on a paid or gratis basis to economic organizations, the military, government organizations, political and social organizations, families and individuals.

In fact, the SOEs (state owned enterprises) included in Viet Nam's SMEs (small and medium enterprises) are allocated land by the government. However, the land used by the private sector to carry out business operations is not allocated by the government. Consequently, there are three ways in which private sector companies are able to use land for business purposes: 1) the right to use their own land, 2) land leased from the Government, and 3) land leased from SOEs.

The land use system in case 1) is often seen among commercial & service sector enterprises and household enterprises. The reasons include the fact that the right to use land for personal dwelling place is allocated by the Government and the commercial & service occupations require little floor space for an office. Thus, many people combine their dwelling place with their office. In the case of the household, the land area needed is small and they can use their own dwelling place land, or they purchase the right to use land from other household businesses and use it for an office.

There are only a few firms that use type 2). According to the Land Leasing Department of Hanoi (created after a structural reorganization from the Land & Housing Department and the Land Administration Department), in 1998 there were 30 application to use government land from business from private sector firms. In the first half of 1999 (January to June) there were only 10 such cases in the whole of the Hanoi city area. According to statistics from 1997, the number of non-state operated business premises amounted to 16,279. This is considered to be a low figure based on the sustained economic growth of over 5% in real terms in the period from 1997 to 1998. The reason for this is leasing from the Government requires the capital investment and know-how. This includes the paying compensation to farmers for the lease of the land, the cost of preparing the land and the leasing fee. On top of this, there is the cost of building a new structure and the cost of restoring the land currently being used. However, most SMEs do not possess such resources, or they are not actively interested in expanding their

business and so they don't need to lease land from the state. Thus, only a few enterprises that are successful apply to the Government for a land lease. When people move into industrial zones, this takes the form of a sublease from the zone developer. The procedure is easier than making a direct application to the authorities. However, the supply of industrial zones that accept SMEs is restricted.

Tan Tao and Le Minh Xuan are industrial zones in Ho Chi Minh City and they provide industrial land to the SMEs. Currently, only 30 SMEs are already using this land, and just over 100 SMEs have entered into contracts for the land.

As a result, case 3) is common and many of the SMEs excluding the commercial and service sectors lease land on short-term contracts from the SOEs. These enterprises do not have stable land to run their businesses on.

In Hanoi, land leasing charges are 0.35 – 0.7USD per square meter (including buildings) per month. For one hectare, the charge is 3,500 - 7,000USD per month, so they are by no means low charges.

There is no knowing when the SOEs will demand that the land leased from them should be returned, and so they cannot invest in equipment and they continue to operate using the old facilities of the SOEs. Thus, there are limits to their production capacity. As a result, some enterprises continue to operate in mixed residential zones in urban areas and this presents the possibility of environmental pollution. It may also be that the infrastructure is inadequate and so their productivity does not improve. This means they cannot expand the scale of their operations, and many of them miss business opportunities.

However, the SOEs have large amounts of idle land and facilities in their possession. Idle land and facilities held by SOEs can be used by the SMEs, and formerly this system has advantages for both the SMEs and the SOEs. Almost all SMEs have been established for less than 10 years, and they have a weak capital base. Thus, being able to lease land from the SOEs means they had to spend little on equipment investment and they can terminate their operations whenever they wanted to. For the SOEs, the lease revenues were an important source of income.

The economic crisis in Asia is putting a curb on investment in Viet Nam by foreign companies. As a result, there are delays in the development and occupancy by companies in the three types of industrial zones. These are export processing zones (EPZs), mainly intended for foreign companies, then there are the industrial zones built by the industrial zone authorities of the local government for large SOEs, and finally there are the high tech parks. This is one of the factors giving rise to the unfair division of land between the SMEs and other enterprises.

5.1.2 Procedure for Acquiring Land for Business Operations

When the SMEs want to acquire land for business, the most common form is to take out a lease on the land. When they lease land from the SOEs, they just have to conclude a lease contract with the other party concerned. However, in order to lease land from the government, they have to comply with the following procedures.

- (1) Registration of the SMEs as a corporate entity
- (2) Submission of the documents to the Department of Land and Housing (this includes documentation on investment permit, and documents on the boundaries certifying that agreement with the concerned organizations has been obtained, leasing charges, land utilization plans and compensation plans).
- (3) Land survey conducted by the Department of Land and Housing
- (4) In addition, depending on the type of land utilization plans involved, it may also be necessary to obtain the permission of the General Department of Land Administration and the Prime Minister.

This is the actual process. However, in reality each stage is very long drawn out and very complicated. Registration as a corporate entity is necessary if this has not already been done.

Apart from industrial zones, when a private sector enterprise tries to acquire land, the entity wishing to acquire the land must engage in the negotiations to obtain the land themselves. This includes negotiations to have the land vacated, and the payment of compensation money. The cost of building up the infrastructure on the land must also be borne by the acquiring party. The current situation is that there is no government support for any of these costs for private sector enterprises seeking to acquire land. If the party seeking to acquire land tries to borrow funds from a state run bank, he/she must place an order with a state run construction firms at a hefty mark up to undertake the construction for the infrastructure, etc. This is a factor hindering development.

In the case of industrial zones, the only requirements are approval of the business plans and submission of documents to the General Department of Land Administration for registration after conclusion of the lease contract. Moreover, this kind of business plan for application for an industrial zone lot is easier to draft than those for other purposes. Regarding the lease charges, in the case of an industrial zone, the developer decides them. However, in cases other

than industrial zones, the local government makes the decision based on Decree No. 87/CP of August 1994.

However, the development of industrial zones is not going very smoothly. In the plan to build an industrial zone at Vinh Tuy in Hanoi, the body to implement the development has not yet been decided after an interval of four years since a group of 18 private sector SMEs who have land problems, made this proposal. As a result, the main form of leasing is a system of sub leasing land from the SOEs.

5.1.3 Situation Relating to Land Purchase Transactions

Currently, if someone is thinking of acquiring land, they face a lack of information on land availability. Land information mainly consists of the location, the use, and the price. When looking for land, one faces another obstacle. The real estate market for industrial or commercial land has not yet been developed, and land-related information is not in circulation.

The procedure for an enterprise to build a factory includes confirmation of whether the land is suitable for the construction for a factory. The authorities are obliged to respond within 45 days. The decision as to if construction can be carried out is based on the land utilization plans of the urban planning authority. However the land utilization plans are not made public. This means that unless an application is made to the authorities, the actual situation cannot be determined. As a result, about half of the application is rejected. Currently, preparations are underway to allow people to see these land utilization plans at the local government offices. They are also preparing to publish documents on this subject.

The price of the land or the leasing fee is decided by negotiations between the parties concerned. However, the standard price of land and the evaluation measures used are not made public. Thus, there are comments that the land price situation is unclear. Regarding land tax, there is a taxation standard based on the evaluation sum placed on it by the government. However, the government's evaluation sum is sometime said to be above the actual market price. The most desirable approach would be for the government to decide on the evaluation standards and make information public based on these standards. In this way, they could produce a guide to land prices. However, this is not yet in hand.

We have calculated land prices based on information about actual land purchase negotiations. High grade land around Hoan Kiem Lake in Hanoi costs about 420 dollars per square meter. Three kilometers from the center of the city, it costs about 140 dollars per square meter.

5.1.4 Setting and Exercising Right to Seize Collateral

There is a system allowing the use of land as collateral. However, in order to use land as a collateral, it is necessary to have a Land Use Right Certificate (Red Book) or a certificate showing that the cost of leasing the land from the government has been paid up for the duration of the lease¹.

The setting of the mortgage for land can be entered in the Land Use Right Certificate. However, there are very few cases of private sector enterprises using land for collateral, and there are just a few cases in Ho-Chi-Minh City. There are public auction facilities for exercising the right to seize and dispose of a collateral property (auctions). However, if a property is bought at an auction, it is necessary to pay the full amount of the lease for the period of use. This means the person buying this right has to bear a heavy burden.

Moreover, no market exists for the sale of ordinary land. Seen from the viewpoint of financial institutions, the value of land in cash terms is low. This means that the value of the collateral falls, and in reality it is difficult to use land as collateral.

5.1.5 Situation Regarding Improvement of Land System

In line with the land law of 1993, systems regarding land utilization rights were established. This makes it possible for private sector enterprises to acquire land utilization rights and it has become possible to lease land from the government. In the land law revision No. 10/1998/QH10 of December 2nd, 1998, a provision makes it possible for private sector enterprises engaged in housing construction and infrastructure building and operation to receive an allocation of state land. In the Decree No.17/1999/ND-CP issued on March 29th, 1999, the procedures are laid down for the exchange of land, the allocation of land and leasing and use of land as collateral.

However, under the present circumstances, the issuance of Land Use Right Certificates, the basis for land ownership, is not being carried out. The reasons for this include; to obtain a Land Use Right Certificate, it is necessary to make clear the rights issues related to the land, the boundaries and the use it will be put to. In addition, this must be approved by the provincial government. A high fee must be paid to obtain individual certification from the local government. When trading land, the permission of all the people with inheritance rights must be obtained. This makes the procedure complex.

¹ See Chapter of this report for the detail.

It is possible to trade land on a private sector basis, and there are ways of acquiring land use rights through purchase. However, in land transactions, if the seller does not have a valid Land Use Right Certificate, a complex procedure has to be undertaken. First of all, the seller and buyer must agree on the price. If the seller has the Land Use Right Certificate, they apply to the local government for approval to conduct the transaction. If they don't have the Land Use Right Certificate, they again apply for approval to the local government which holds the Documents of Land Origins to obtain the abstract of land title.

In the case of private sector land transactions, the agreement of all people with inheritance rights must be obtained. If such agreement is obtained, the three people concerned, the seller, the buyer and the local government official, all go to the land and confirm the land boundary lines. And then the right is transferred. The administrative procedure is for the village/town level local government to inform the regional local government and a new Land Use Right Certificate is issued.

5.1.6 Situation Regarding Development of Industrial Land

It can be said that it is difficult for the SMEs to acquire land from sources other than the industrial zones. Thus, the SMEs desire to acquire land within such industrial zones.

Currently, there are 66 industrial zones in Viet Nam. In the case of development approval for industrial zones when the investment amount is under 5 million dollars, this is obtained from the local government. For larger zones, MPI handles the approval procedure. Viet Nam Industrial Zone and Export Processing Zone Authority (VIZA, a steering committee directly reporting to the Prime Minister established under a special ordinance) controls all the industrial zones in Viet Nam. According to the development plans for industrial zones up to the year 2000, it is planned to build a total of 90 zones covering 10,500 ha. However, only a few are earmarked for SMEs such as Le Minh Xuan and Tan Tao in HCM City and Vinh Tuy in the vicinity of Hanoi. Moreover, this has not yet reached the implementation stage. The private sector enterprises feel they are being unfairly treated by the SOEs who sublease the land they have been allocated from the state to private sector enterprises as a source of income.

Table 5-1 Viet Nam's Main Industrial Zones

	Industrial Zones	Location	Area (ha)	Contracts concluded (%)
1	Bien Hoa II	Dong Nai	237	96
2	Sai Dong B	Hanoi	97	93.3
3	Can Tho	Can Tho	100	90
4	Viet Huong	Binh Duong	15	87
5	Binh Chieu	HCM	22	86.3
6	Go Dau	Dong Nai	147	74
7	Nhon Trach I	Dong Nai	70	68.6
8	Viet Nam – Singapore	Binh Duong	70	64
9	Linh Trung	HCM	60	60
10	My Xuan A	Ba Ria – Vung Tau	75	60

Source : State Committee for Project Evaluation (SCPE) – Data at the end of 1997.

As can be understood from industrial zone development plans, the government is expediting the development of these zones. The following table indicates the related organizations and their current roles. As can be seen from the table, the main role of the existing organizations is to work to obtain permits and authorizations and to actually manage the zones.

Table 5-2 Organizations Involved in Industrial Zones

Organization	Role
Ministry of Planning & Investment	MPI negotiates with MOI, MOC and VIZA and formulates the master plans for the development of industrial zones all over Viet Nam and submits them to the government. It also issues guidance on laws and regulations relating to industrial zones and grants permits and authorization for investment.
Ministry of Industry	Cooperates with MPI on formation of master plan for development of industrial zones. It decides on what should be strengthened and what should be regulated in industry. It issues permits for investment by the manufacturing sector.
Ministry of Construction	Cooperates with MPI on creation of master plans for development of industrial zones. It approves detailed plans for industrial zones.
MOSTE	Supervises science, technology and the environment. It approves environmental assessment and evaluations. It expedites the creation of high tech parks
VIZA	Comes directly under the Prime Minister, and formulates guidelines on planning and construction for industrial zones.
Developers	They must fully fulfil the investment and construction conditions. They build infrastructures and the necessary facilities for industrial zones. They undertake the subleasing of industrial zones and perform maintenance on the infrastructure.

Source: JICA Study Team

According to the plans, the development of industrial zones is proceeding right on schedule. According to Ho Chi Minh City, it intended to relocate 4,000 business premises in densely populated urban areas, including the SOEs, to the city suburbs by the beginning of 1999. However, in reality, it only managed to move 200 business premises. Some of the enterprises that have been relocated have already returned to their original premises because the new lots were unsuitable for production work. In this sense, it is expedient and very important to provide good quality commercial land. The following table shows the plans for the development of industrial zones in Hanoi and Ho Chi Minh City.

Table 5-3 Plans for Industrial Zones in Hanoi Vicinity

Industrial Zone	Developer	Area	Price	Approval date	Current Status
Sai Dong B	Hanel-Daewoo JVC	55ha	1.3 US\$ / m ²	March 11, 1996	90% already leased
Thang Long IP	Dong Anh Mechanical Co. and Sumitomo JVC.	Phase 1 :128 ha	1.3 US\$/m ²	Feb 22, 1997	Site preparation underway
Taiwan IP	Taiwan Co.	40 ha	1.3 US\$/m ²	August 23, 1995	Site preparation underway
Noi Bai	Noi Bai IP developing Co.	50 ha	1.3 US\$/m ²	April 12, 1994	Under construction
Thang Long South	Ass. of Industrial and Commerce	98 ha	-	-	Approval stage
- Thang Long IP - Hanoi Tech. Park	Hanoi Dept. of Science, Technology and Environment	119 ha			
Dong Anh IP	-	160 ha	-	-	Planning stage
Gia Lam IP	-	300 ha	-	-	Planning stage

Source: JICA Study Team

Table 5-4 Plans for Industrial Zones in Ho Chi Minh Vicinity

Industrial Zone	Developer	Area	Price	Approval Date	Current Status
Tan Thuan IP	JV with Taiwan	300 ha	-	July 24, 1991	Implementation
Linh Trung IP	Linh Trung JV	60ha	-	August 31, 1992	60% Already Leased
Tan Tao	ITACO	175 ha	0.82-1.33 US\$/m2 year	September 30, 1996	Implementation
Hiep Phuong IP	Tan Thuan Co.	2,000 ha (Phase 1: 332ha)	-	September 16, 1996	-
Vinh Loc IP	Cho Lon Export and Import Co.	207ha	1.2 US\$/m2 year	Feb 5, 1997	-
Cu Chi North West IP	Cu Chi Commercial Co.	215ha	1.3 US\$/m2 year	July 11, 1997	-
Tan Thoi Hiep IP	Tan Thoi Hiep Infrastructure Development Co.	215 ha	0.7 US\$/m2 year	July 2, 1997	-
Le Minh Xuan	Binh Chanh Construction Investment Co.	100 ha	0.5-0.7 US\$/m2 year	August 8, 1997	Implementation

Source: JICA Study Team

5.2 Objectives and Measures

Looking at the overall picture, the land related legal systems have been reformed, but the land systems per se are not functioning at the implementation level. In many cases, the systems are not easy to use for the SMEs. It is necessary to create measures to bridge the gap between the systems and their application.

Taking into consideration the current land use of the SMEs, we will look at the objectives and methods available to achieve them in the following sequence, land systems, and then on the supply of industrial land and related issues.

5.2.1 Land System

(1) Verification of the land rights and measures to facilitate the sale/purchase transaction

In order to facilitate the reform of land systems to promote the SMEs, the following are essential: improvement of the procedures relating to registration and buying and selling, making information public, and facilitating the relocation of SMEs from the small land plots they now use to better locations. If this becomes possible, a mechanism will come into existence to effect a smooth supply of the land needed to the enterprises that need it.

Measures such as a simplification of the land registration procedures to speed up the issue of Land Use Right Certificates and making public and promulgating land related information to facilitate the implementation of land transactions are essential to facilitate the operations of enterprises in Viet Nam.

(2) Making land related information available

Information on land locations, uses and prices has not yet been made public. Thus, it is necessary to provide information on the idle land of SOEs and ordinary land that could be used for industrial applications.

At the same time, it is necessary to set up a qualification system and registration system for real estate dealers and strive to cultivate a land purchase/sale transaction industry to effect smooth trading in real estate and correct the inequality in the distribution of land.

5.2.2 Development of Industrial Land

(1) The development of land for industrial applications

The development of more land for commercial or industrial applications is desirable. In particular, the government should devise measures to deal with enterprises causing pollution in mixed residential zones. However, when taking into account the ability of the SMEs and the

government to invest capital, it would not be sufficient to just develop industrial zones and sell off land plots in them led by the public sector. In addition, it would also be a practical solution to effect zoning within urban development plans and encourage SMEs to relocate to zones with suitable land available in terms of the infrastructure and the environment. Seen from the viewpoint of the public sector investment spending, it is very important to meet the needs of the SMEs in terms of the location and land utilization they require.

Currently, the development of industrial zones is in progress. However, studies of the development schemes are necessary to understand and respond to the needs of the SMEs and to improve the investment spending efficiency of both the government and the enterprises. The cases of Tan Tao and Le Minh Xuan can be a model of industrial zone for SMEs.

In Ho Chi Minh City, the system is that a land developer constructs a factory and sells it on an installment payment basis or leases it to the SMEs. The Ho Chi Minh City Investment Fund for Urban Development (HIFU) and Bank for Investment and Development of Vietnam (BIDV) are building a framework in which the developer provides guarantees and extends financing to the SMEs.

Model 1: Tan Tao Concentrate Industrial Park

Location: Binh Chanh Dist. HCM City
Developer: ITACO
Area: 180 ha.
Cost: 52/62USD/m²/48 years

The capital of this industrial zone is 2 million US dollars. 60% of this is put up by private sector enterprise such as construction firms and manufacturers, 30% is supplied by BCCI, and the remaining 10% by banks. The total cost of the project is estimated at 45 million US dollars, the government is contributing 5 million dollars, and 5 million was raised from the participating enterprises. The remaining 35 million dollars will be raised using a staged approach by employing the funds generated by selling zone lots. The land was purchased from farmers, etc, at a price of 1 billion VND per ha. If the land is used for agriculture, one hectare would support the cultivation of 2 tons of rice per harvest cycle, and the income of the farm would be 2 or 3 million VND. The interest earned by managing the money received from the sale of land amounts to about 10-times the amount they could earn by farming it, and so there is no problem in acquiring land.

Currently, this industrial zone has entered into contracts with 58 enterprises, 48 of these are Vietnamese, and 40 of these local enterprises are in the private sector. The remaining 18 are neighboring countries and other foreign countries. Of the total of 58, facilities for 20 enterprise will be built this year on a site of 30 ha. The 20 enterprise facilities under construction will make plastic and textiles. The plastic industry is achieving growth of 25 to 30% per year. The enterprises setting up in the zone sell the land they have used up to now to a real estate dealer, and use the proceeds to buy their plot on the zone. The industrial zone developers are also acting as real estate brokers. There are about 10,000 private enterprise in Ho Chi Minh alone and 100,000 family businesses. Thus, Tan Tao can only accommodate a few of them.

Due to the currency crisis in Asia, the number of FDI's is decreasing, and so it has become vital to cultivate domestic industries. The new corporate law will stabilize the existence of the SMEs and be a positive factor. Thus, policy-driven support is essential. The Viet Nam-Singapore industrial zone is a successful case. Thanks to the support of Singapore's government, it has achieved a high level. Important elements in the support program include funds, technology and human resources. In terms of funds, HIFU is functioning effectively. Through support from MOSTE, technology is being introduced. However, more realistic and practical training is necessary. Human resources are more important than equipment. In terms of human resources, it is important to correct the gap with the SOEs. For example, even if they meet the screening standards for receiving an overseas scholarship, people from private sector firms are not sent overseas.

There is a great need for technical centers to provide supportive functions for the SMEs. There are plans to build several training centers at a distance from Ho Chi Minh City, and there are several other plans. However, these are not up to the standards required by the enterprises themselves. These centers are needed because, even if a person has graduated from a technical university, he/she has acquired mostly theoretical knowledge, and re-education is needed. At the moment, Tan Tao is 200 hectares. However, it is located close to Ho Chi Minh City, and so it is easy to find enterprises wanting to relocate there. Consequently, they want to develop an additional 260 ha and build a support center at the same time.

Model 2: Le Minh Xuan Industrial Zone (LMX)

Location: Tan Kien-Binh Loi Road, Binh Chanh District, HCM City
Developer: Binh Chain Construction & Investment Co. (Run by Provincial Gov.)
Area: 100ha
Cost: 35.5 USD/m²/50 years

Overall area is 100 ha. The first development is 45 ha and the second is 55ha. In the first development, 65 enterprises have taken up occupation. Most of them are local SMEs, but there are some companies from Taiwan and Korea. 70% of the site is industrial use land.

The SMEs are enterprises that have relocated from the urban areas of the city. The authorities have sought out enterprises that are problematic in terms of the environment such as dirty wastewater, industrial waste, noise and vibration, etc., and persuaded them to relocate. LMX is an industrial zone that has been developed to accommodate SMEs like these. The policy by Ho Chi Minh City Export Processing and Industrial Zones Authority (HEPZA) is to relax environmental standards as the distance from city center increases. They are working to realize the dream of moving all the factories out of Ho Chi Minh City and making it a greener and more pleasant city to live in.

The more attractive features of LMX include (1) the SMEs don't have to search for land, and the lease payments are postponed. (2) The enterprises can set up and move in quickly thanks to the financial help provide by HCM city investment development fund (HIFU) and BIDV. Low interests are levied and payment is postponed until after the construction period and some facilities are built ready for occupancy in advance. (3) The legal procedures have been simplified. (4) A free service is provided for the design of factories and technical transfer. (5) Preferential tax treatment is granted for the first two years they don't have to pay income tax, and for the next three years, it is reduced by 50%.

The reason for the success of LMX is that they operate the zone from the point of view of the SMEs. For example, in the case of a food flavoring plant already set up in the industrial zone, this enterprise received a lot of orders, but it had limited production capabilities and no investment funds. For this enterprise, HIFU provided the funds to construct an expansion facility. The features of the LMX model are as follows. First, LMX provides the land and infrastructure (the funds required are lent by BIDV), and HIFU provides the funds to build the structure. No collateral is demanded and the building is the property of HIFU for the first five years. In addition, the investors participating in the project are allowed to pay 5 years later. This has solved the problems of financing procedures and interest and collateral problems. To this end, BCCI enters into negotiations with financial institutions and suppliers and obtains advantageous conditions for the SMEs. For example, the payment to a firm supplying iron was put off for two years. In addition, BCCI negotiated Nomura Haiphong for the purchase of unused generators at a low price.

The developer, BCCI, is an enterprise of the local government (Peoples' Committee) of Binh Chain Province. Up to this time, it had been engaged in the construction of infrastructure projects such as apartment blocks and roads. From 1997, BCCI started to participate in the development of industrial zones. From 1998, it has also been engaged in rezoning projects. There are very many SMEs in Ho Chi Minh City, and so 100 ha is not enough.

In order to develop industrial zones for the SMEs, the key factor is human resources. It is vital that the people who manage these projects for the SMEs must be very talented, dedicated, honest and willing to work for the SMEs. This developer took the trouble to curb his own wage costs and was able to make a contribution to the SMEs by providing follow-up services. BCCI has been very sparing in marketing costs.

(2) Factory Apartments and Incubation Centers

For the SMEs that don't need a land plot on the scale of an industrial zone, it is necessary to make factory apartments and incubation centers supporting technical development available to them. In Hanoi, two projects are planned along the lines of a factory apartment & incubation center. These are Hanoi Technology Park, or HTP (Thang Long South IP) and the Center for Supporting Software Industry, even though the location has not been decided yet.

The Department of Science, Technology and Environment of Hanoi is promoting these projects. HTP is offering incentives such as reduction of /exemption from land lease charges and taxes. The Center for Supporting Software Industry provides advanced equipment to promote software operations.

(3) Lack of Developers

The lack of developers is the bottleneck impeding the provision of Industrial land. In reality, the local government is carrying out these land development projects, and there are problems in terms of funds for the infrastructure. It has to be said they do not always have the requisite abilities in this area. Decree No. 51/1999/ND-CP issued on July 8, 1999 states that the government will develop industrial zones for the SMEs. However, it is necessary to implement concrete support measures from both sides, that is in terms of funding such as provision of soft loans and preferential tax treatment as well as the supply of technology and training of human resources.

5.2.3 Other Problems Associated with the Land System

(1) Environmental problems

There are cases of land pollution on the sites previously used by industrial enterprises and this hampers their reuse. We consider that it is necessary for the government to deal with land pollution at the expense of the public sector. MOSTE has established pollution standards. Based on these, it designates factories that must relocate. However, in reality, considerable time elapses before the relocation take place.

In principle, factories can only be constructed on land designated as industrial land. However, in reality, the privately run family enterprises are small in scale and there is little possibility of pollution generation. Thus, they are allowed to operate production equipment in residential housing.

Use of industrial land in urban areas is allowed in the case of industries considered to present no possibility of pollution generation and which have the capacity to employ a lot of people. This is a measure to prevent the depopulation of urban areas and to avoid commuting travel. In concrete terms, this is applied to garment making, hand-made items, folkcraft, electric and electronic product assembly, and food, etc. Food items that do not cause pollution such as confectionery are allowed, but items such as meat are not allowed.

SOEs engaged in leather processing, machine processing, lead plants and leather shoe productions are being relocated to industrial zones in rural (non-urban) areas. It is also planned to relocate motorbike repair shops, automobile repair shops and metal welding shops. The authorities consider that this will include many private sector enterprises. However, progress in this area is slow.

(2) Used land site problems

At the time of relocation, it is easy for the authorities collect all the land utilization rights and rent the land out to new land right holders. However, there are problems associated with relocation as to whether the rights of the existing buildings should be bought by the new rights holder.

After the relocation of factories, the site is usually used for hotels, offices, housing complexes or public land. Sites in the center of urban areas are more expensive in fee for the right to use the land, and it is almost impossible for other factories to relocate to these sites.

5.3 Measures to Improve the Situation

5.3.1 Measures Implementation Sequence

The short-term measures that should be implemented to achieve results by 2005 include the following: development of industrial zones for the SMEs and financial support, a simplification of land purchase transaction procedures and changes in the designation of land utilization purposes and establishing land rules for land usage. There is also a need for the drafting of plans to purify polluted land. The medium-term measures aimed at a timeframe continuing on beyond 2006 include the outright issuance of land use right certificates and the establishment of

management know-how. Long-term, sustainable measures needed to continue on beyond 2010 include the training of human resources.

Figure 5-1 Sequence for Implementation of Measures

	Up to 2005	2006-2010	2011-2020
Development of industrial zones for the SMEs	5 locations → → 10 locations		
Commencement of provision of funds to facilitate setting up in industrial zones	→		
Simplification of land purchase transactions	→		
Management know-how		→	
Outright issuance of land use right certificates		→	
Training of human resources			→

Source: JICA Study Team

5.3.2 Urgent Objectives – Development of Industrial Zones for the SMEs

Although progress will be made in the rationalization of land rights and simplification of procedures, this will take some time. Thus, precedence should be given to the implementation of a response to the needs of the SMEs in terms of land for operating their businesses. In concrete terms, this means including the provision of land for the SMEs within the industrial zones development plans of MPI and local government bodies. Thus, industrial zones for the SMEs should be added to the three currently active project categories, EP Zones, IZ (industrial zones) and High Tech Parks, and the authorities should push forward with these developments on a four-pronged basis. Measures to alleviate the bottlenecks impeding development work, that is the lack of developers (investors), include the establishment of a fund to provide funding support to developers able to build industrial zones meeting the needs of the SMEs. This would mean setting up funds by the local government bodies along the lines of that established by Ho Chi Minh City.

Measure that we feel should be implemented immediately to promote the development of industrial zones for the SMEs are shown below in concrete terms.

Key points in the promotion of industrial zones for the SMEs

* The approach advocated is to learn from the successful industrial zones projects for the SMEs achieved so far, and create a database and format template. The model should be based on the scheme used by Ho Chi Minh City and the Le Minh Xuan and Tan Tao industrial zones (accommodating about 100 SMEs), and this should be applied to Hanoi and then extended out nationwide.

* This scheme has the intention of moving pollution sources arising from factories in urban areas to the city outskirts. (This aims to achieve a transformation of the cities to green and pleasant to live in environments.) The private sector should actively participate in the development of commercial and industrial land for the SMEs led by the government. The land would be purchased by the developer using funds provided by BIDV. For the buildings and equipment, the urban development investment funds of the local government would be used. The enterprises setting up operation in these zones would be allowed to pay off their debt in installments over a long period of time. After completing payment of the purchase prices, the land rights would be transferred to them.

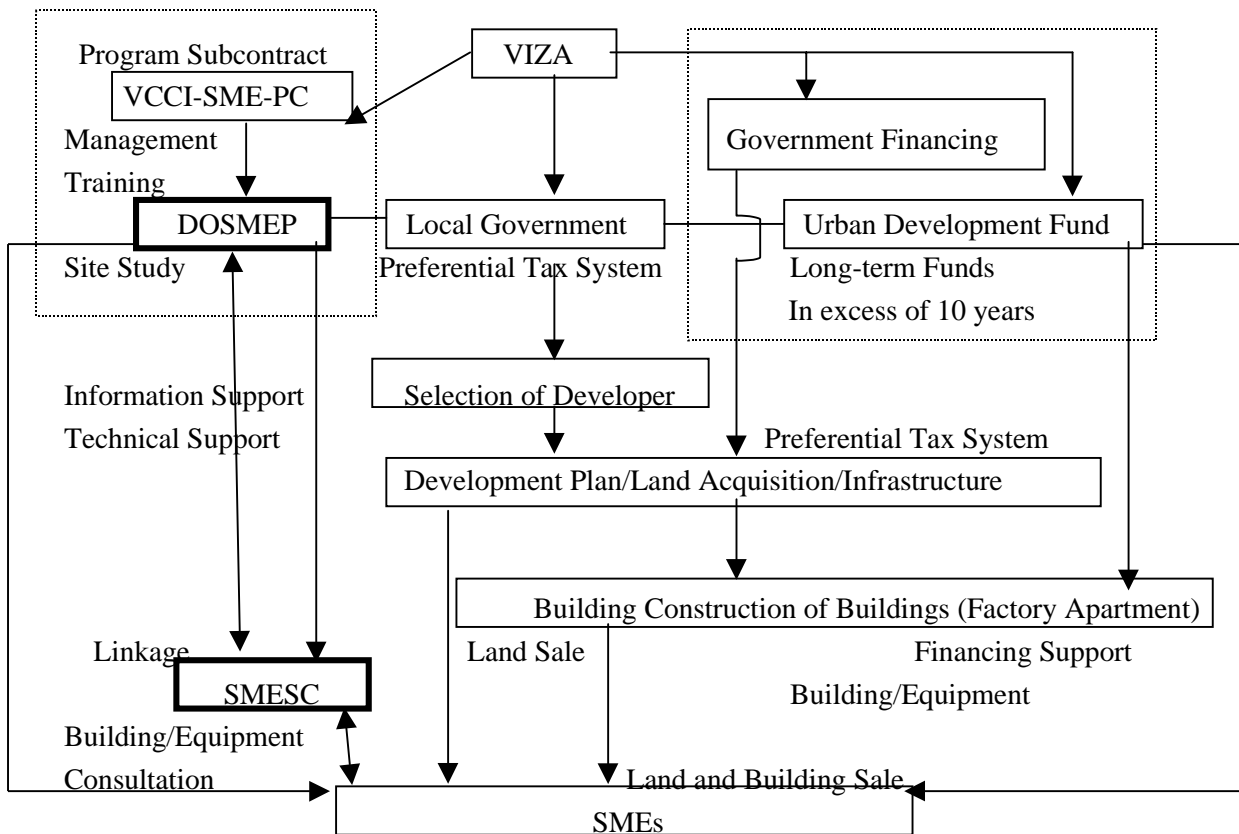
* The government should plan several pilot projects, and create the right conditions for them including a tax system to encourage the relocation of factories, and set up a system to provide funding for land and equipment purchase.

* It is possible for individual medium-standing enterprises to implement relocation, but for the small scale SMEs it could be difficult, and so they can relocate to a factory apartment. The smaller enterprises need to be close to their customers. Thus, by cooperating with each other, they could form a more efficient body similar to a medium-scale enterprise. For example, in the case of enterprises in urban centers such as repair shops where people take their motorcycles to be fixed, the essential functions should be integrated into a service center and this could remain in the urban areas.

* Center for Technical Support should be set up within industrial zones to enhance the competitiveness of the medium size enterprises. This would include support to boost productivity using machinery of the type they are accustomed to using.

The following is a summary of the above points in chart form seen from the viewpoint of the related competent authorities and their roles.

Figure 5-2 System Diagram Showing the SME Industrial Zone Development Program



Source: JICA Study Team

The following is an outline of the main features of the industrial zones needed for SMEs, and the difference between currently existing industrial zones and them.

Table 5-5 Features of SME Industrial Zones

Points	Outline
Developer	* In addition to the local government, the private sector developers should also participate.
Details of facilities	<p>* One lot should be under 1 ha. Good infrastructure including roads, water and electric utilities should be provided.</p> <p>* Provision of industrial apartments for enterprises that are specialized in one process area and do not require large operational space, or provision of production equipment that can be used jointly by several enterprises.</p> <p>* Aim to provide SME support services within the industrial zones. These would include work training centers and management information centers (information on finance, land and trading partners).</p>
Public sector support	<p>* The government should provide ample support in the form of low interest loans, preferential tax treatment and subsidies to deal with polluted land and to ensure water quality in terms of making used land reusable and building new treatment facilities.</p> <p>* Incentive packages should be available to encourage relocation such as low interest loans, preferential tax treatment and technical support.</p>

Source : JICA Study Team

As a candidate of the pilot project for SMEs, Thang Long South Industrial Park can be named. For the IP, the Hanoi Union Associations of Industry and Commerce is developing industrial lots for SMEs and the Department of Science, Technology, and Environment of Hanoi City is to develop a technology center for SMEs.

The urgent implementation of this kind of pilot project on industrial parks for SMEs will highly contribute to accelerating development of SMEs in Viet Nam. Also, spreading out the model of industrial park for SMEs with success story from the pilot project will result in playing a key role in solution of land problems of SMEs.

6. EXPORT PROMOTION

6. Export Promotion

6.1 The Current Export Status of SMEs

6.1.1 Export Situation

In 1998, the value of exports from Viet Nam amounted to about 9.3 billion dollars, an 1.9% increase over the previous year. The value of imports amounted to about 11.5 billion dollars, a decrease of 0.8% over the previous year. A rough breakdown of exports shows the following: heavy industry & mining (28%), light industry & handicrafts (37%) and agricultural products (24%). The export status of Viet Nam's main products is shown below. Products with an export value exceeding one billion dollars are crude oil, textiles & garments, footwear, and rice.

Table 6-1 Overview of Viet Nam's Export Situation 1995-1998

	million USD			
	1995	1996	1997	1998
Rubber	193.5	163.3	191.0	127.5
Coffee	595.5	336.8	491.0	593.8
Tea	26.5	29.0	48.0	50.5
Rice	546.8	854.6	870.0	1,024.0
Cashew nuts	97.7	100.0	133.3	117.0
Pepper	38.8	46.7	62.8	64.5
Vegetable & Fruits			68.3	53.4
Marine products	621.4	651.0	780.8	818.0
Textile & Garment	850.0	1,150.0	1,350.0	1,351.4
Footwear	296.0	530.0	965.5	1,000.8
Handcraft & Fine art			121.3	111.2
Electronics		100.0	400.0	73.0
Coal	88.9	114.2	110.8	101.5
Tin	19.0	17.6	13.3	12.4
Crude oil	1,033.0	1,346.0	1,413.4	1,232.2
Others	1,041.8	1,816.7	2,125.5	2,629.8
Total	5,448.9	7,255.9	9,145.0	9,361.0

Source : Trade and Investment of Viet Nam, VIETRADE

According to the report of MPDF (January 1999 Survey), of the 95 private sector companies in the manufacturing sector, 89% export their products and 78% earn most of their income from imports (50% have a working force of less than 300, 71% are under 500). As the domestic market in Viet Nam is still immature, the export market is important for the SMEs

(Small and Medium Enterprises).

There are no official figures showing the share of the SMEs in terms of exports. Thus, we are forced to depend on estimates based on the data available. Here we will give an outline indicating which industries the SMEs are active in and which industrial sectors are engaged in exporting.

According to UNIDO-MPI¹ (1999), the SMEs are not participating in the production of coal and oil sectors. Thus, the SMEs are not engaged in export activities in these industries. In the tobacco industry, 29% of the companies are SMEs. However, the production share of the SMEs is only 0.11%, and so the export share of the SMEs in the tobacco industry is extremely small. The SMEs are mainly active in the following seven industries: garments, textiles, metal products, furniture, wood & bamboo (rattan, cane) processed goods, other metallic products, and food & beverages. On the basis of the number of companies engaged in these seven industries, the SMEs have an 81% share on average. Their share in terms of production volume is shown in the table below.

Table 6-2 SME Share of Production Volume

Industry	Production Volume Share
Garments	4.06%
Textiles	4.10%
Metal products (Excluding machinery & equipment)	4.60%
Furniture production	5.33%
Wood & rattan (cane) production	8.03%
Non-metallic minerals	14.49%
Food & beverages	40.24%

Source: UNIDO-MPI

¹ UNIDO-MPI, “*Improving Macroeconomic Policy and Reforming Administrative Procedures to Promote Development of Small and Medium Enterprises in Viet Nam*”, UNIDO-MPI Project “Assistance to Industrial Small and Medium Enterprises in Viet Nam”, US/VIE/95/004, Hanoi, January 1999.

Looking at the share of the SMEs by industry, the highest position is occupied by food & beverages. However, most of the food & beverage products are sold in the domestic markets of Viet Nam. Thus, products with export potential are non-metallic minerals, furniture & handcraft products, garments and footwear.

However, in reality, even if the SMEs had products with export potential, they would face difficulties in terms of operating such a business. For example, the quota for garments is almost all allocated to state owned enterprises (SOEs). In terms of allocation of land for running an enterprise and financing, a state of inequality continues to exist between the SOEs and SMEs. There is also considerable dissatisfaction, not only with the lack of equality in terms of business opportunities, but also with the fact that the SOEs utilize their special privileges to enjoy unfair advantages. For example, the SOEs lease out the land they own to the SMEs and use this as a source of income. They also subcontract the production of export products for which they have quotas to the SMEs and just enjoy the profits, both of which generate dissatisfaction on the part of the SMEs.

6.1.2 Export System and Deregulation

There are two types of export permits, direct export permits and permits to export designated products. The number of designated products for which a permit is needed for import and export is gradually being reduced. At the moment, this covers about 20 categories. Products covered by the export permit system include garments for the EU and rice, etc. Products covered by the import permit system (quota) include cement, pig iron, some glass products, fertilizers and luxury products in daily use. The quota for the export of rice gives precedence to major companies able to implement exports themselves. The quota for the export of garments is decided through agreements with the country of destination.

Regarding the export quota for rice, a tendering system is in force, and the private sector firms can also participate. In the area of garments, it is intended to allow a tendering bid system to be introduced for 20% of this category, on a test basis from this year. However, as is the case with rice, only some enterprise can submit tenders, and it is a situation in which even if the SMEs with a weak capital base and no previous experience were to submit bids, they could not win.

Viet Nam joined ASEAN in 1995, and this resulted in its participating in AFTA(ASEAN Free Trade Area)/CEPT(Common Effective Preferential Tariff) agreements. This requires Viet Nam to remove its non-tariff trade barriers and reduce its import tariffs (0 to 5% on 70% of

items within the ASEAN region) by 2003. Currently, export taxes are imposed on about 58 product groups running at an average of 14% and up to a maximum of 45%.

In addition, a liberalization of trade will become necessary. One reason for this is Viet Nam's participation in APEC from this year. Another is its aim to become a member of WTO. Viet Nam applied for membership in 1995, and the WP started in July 1998.

Sine 1989, Viet Nam implemented a deregulation of the establishment of trading companies, it gave permission for direct trading between state owned enterprises (SOEs) and foreign companies, several export subsidies were abolished, a relaxation of the licensing system and quotas was implemented, and the exchange rate was lowered.

Decree 57/ND-CP issued in July 1998 should be given special attention. Prior to this, it was necessary to obtain a license for both importing and exporting activities from the government. However, with the issuance of Decree 57/ND-CP, the situation changed, and all enterprises that included export/import in their company registration are now allowed to engage in these activities without the need for a license. As of November 30, 1997, there were 1,630 enterprises with a license from the Ministry of Trade to engage in export/import activities. At that time, there were 32,000 enterprises in Viet Nam. In view of this, 1,630 must inevitably be considered a low number. Almost all of these licensed enterprises were SOEs.

According to an article in the Saigon Weekly Times (No. 16-99 (433) of April 15, 1999), thanks to Decree 57, the number of enterprises participating in direct export/import activities increased 9 fold, from 500 to 4,500. As a result, exports by private sector enterprises increased by 250 million US dollars during 1998, and the private sector enterprises have come to engage in direct exports of the products formerly exported by the SOEs.

The Government is engaged in simplifying export procedures. In an interview with the General Department of Tariff, they indicated that there has been an increase in exports thanks to the simplification of export procedures. However, on the company side, opinions were expressed to the effect that export tariffs slow down the process, the process is discretionary to a large extent and the tax rate changes suddenly. In terms of preparing for membership of WTO and AFTA and entering into a trade agreement with the U.S., improvement in the regulations governing import and export are necessary.

6.1.3 Status of Overseas Market Development

The VCCI, VIETRADE (through the 37 councilors of Vietnamese embassies around the world), and SMENET (ZDH) collect information on overseas markets and the development of trading partners for the corporate sector. In addition, the MOT has an activity base, Viet Nam

Square, in Osaka of Japan and the VIETCOM Bank (foreign trade bank) checks information on market trends using various media information sources and provides information on the market and trading partners through its correspondent banks. However, these services have not been widely used.

The fact that Viet Nam's enterprises cannot gain access to information is a major detriment to their business operations. For example, regarding the export of coffee, due to the lack of information on international market situations, some enterprises were selling their coffee at a price about 10% less than other products of a similar quality. A similar situation has occurred in the export of rice. In the last 8 months, the international price has risen by 15 to 20%. Nevertheless, Viet Nam continues to export rice at a price level increased by a margin less than the rise in international prices. Naturally, due to product quality factors, Viet Nam cannot set its prices simply based on changes in international prices. However, when engaging in price negotiations with foreign importers, it is a fact that a major disparity exists in terms of information access.

Currently, thanks to the utilization of the Internet, it has become possible to gather price information, develop new customers and implement advertising and publicity all at low cost. However, in Viet Nam, the cost of gaining access to the Internet is high compared to developed countries. According to data from Viet Nam Internet Network, there are only about 20,000 computers connected to the Internet in the whole of Viet Nam.

6.1.4 Export Promotion

In terms of supporting exports, exhibition and advertising enterprises coming under the Ministry of Trade hold exhibitions both in Viet Nam and overseas. Through aid from Germany, exhibitions in Germany are also held. Compared to other ASEAN countries, Viet Nam is weak in the area of overseas promotion.

Viet Nam's exporters are looking for new customers, and the foreign trade organizations in Viet Nam are functioning relatively well. Currently, there are 10 such organizations such as JETRO (Japan), KOTRA (S. Korea) and CETRA (Taiwan), and they are working to build links between Vietnamese enterprises and those in other countries such as Australia, the U.S., Japan, the U.K., Germany, France, Taiwan, the EU, India and Thailand.

Thus, several organizations engaged in supporting the development of customers for the SMEs are providing services. However, the current situation is such that the management executives of the SMEs rely on their own personal networks to search for export destinations. As a result, with the exception of SMEs with personal networks to net foreign customers, many

of the SMEs engaged in exports do not develop overseas customers themselves, and they sell mostly through foreign trading houses, and in this way their products are exported around the world. In fact, the domestic trading enterprises are still at the developmental stage. In view of the importance of delivery time and quality, some of the state owned trading enterprises are expanding their production capabilities, and they are becoming competitors of the existing SMEs.

Viet Nam is participating in overseas trade missions and overseas trade fairs to a very limited extent. However the participant places are almost all monopolized by the SOEs and large enterprises, and participation by the SMEs is practically zero. A major factor is fund limitations. However, in addition to this, another problem pointed out is that even if a private sector enterprise does want to participate in an overseas trade mission, exit permits for commercial purposes are not issued speedily. In reality, a Vietnamese enterprise that intended to participate in a trade fair in Japan had to cancel its participation just before the event, and so Japan checked on the reason for this. It was found that there are cases of exit permits not being issued at all.

6.1.5 Export Financing

Even if a customer is found to purchase exports from Viet Nam, effective export credit and trade insurance systems have not been put in place. As a result, the corporate sector has to depend on L/Cs and ordinary commercial financing. However, in order to obtain a L/C, the exporter has to deposit up to 80% of the funds required at the bank, and SMEs have difficulty in obtaining financing from commercial banks. These problems hamper exports.

In order to open up opportunities to export, it is necessary to secure export financing and funds for capital spending. However, in reality the SMEs have no access to these funds.

In 1998, the Vietnamese government came up with a policy of export promotion (support) measures such as preferential interest rates on some export items and the establishment of an export credit fund and VIETRADE with the aim of improving the trade balance. In 1999, the Ministry of Finance and the Central Bank announced a proposal to set up an export credit fund. Based on Decree 51/ND-CP (Government ordinance promoting domestic investment) issued in July 1999, the establishment of an export support fund was announced. However, there is some doubt as to if this is proving of use in terms of supporting the SMEs. For example, the president of a certain enterprise made an application to borrow export credit funds. However, after 14 months of waiting, there has been no response. (Saigon Weekly Times, No. 13-1999,

March 25 1999, P11). This year, the government has allocated a reserve of 300 million US dollars as an export promotion fund. However, there is no information available on how this fund will be used.

6.1.6 Export Knowledge and Practical Business Ability

In order to promote exports, Viet Nam needs knowledge of contracts and transactions based on international rules, as well as tax and finance know-how. However, at the moment, Viet Nam does not have many experts in this field. Moreover, it takes considerable time for the SMEs to acquire such know-how on their own. Consequently, they have to pay high fees to specialists or foreign trading companies and this pushes up the cost of exports.

6.2 Objectives and Methodology

6.2.1 Improvements in Export Procedures

In terms of export promotion, Decree 57/ND-CP is a positive development. However, there is still plenty of room for further improvements. In concrete terms, although export licenses are no longer required, firms that have included export/import in their registration application can only engage in these activities in the categories they specify on registration, thus their freedom is of a limited nature. If an enterprise wants to engage in export/import of items not covered by the scope of its registered operations, it must still apply for permission to do so. According to Circular No. 03/1998/TT-TCHQ issued by the Tariff Bureau, enterprises engaging in exports and imports must have a tariff code number. The procedure for obtaining a tariff code number involves the following. (1) Acquisition of tax registration forms issued by the Ministry of Finance, (2) business enterprise registration forms issued by MPI of the Planning and Investment Bureau of the local government (Peoples' Committee), and (3) submission of a tariff code number application form. In view of the (limited) ability of the SMEs to perform administrative work and their ability to understand procedures, and the government's administrative procedures enforced at each level, it is difficult to obtain such a code number. According to the Tariff Bureau, as of the end of 1998, 3,079 enterprises had acquired tariff code numbers. Of these, 1,905 were applications from enterprises applying for the first time.

In Viet Nam, there is a massive gap between the system and its actual application, and both the government and the enterprises are aware of this fact. Thus, the need is not just for a liberalization of laws and systems, but an improvement in the infrastructure of the actual

operation and application of systems. Examples of what is needed include speeding up import/export procedures, abolition of the discretionary application of tariff rates, standardization of tariff procedures, and a reduction in smuggling.

In order to attain competitiveness in exports, it is necessary to make improvements in the procedures for drawing up important contracts on joint ventures with foreign customers and for contracting out processing. In terms of making a quick response, this is particularly important when it is necessary to find and import materials and export the finished products speedily. In addition, the delivery time is also a very important factor. If the delivery date is not met due to delays caused by export procedures, this will lead to the exporter losing the confidence of the customer. Therefore, it is necessary to create a mechanism in which discretionary decisions on export procedures by individual officials are not allowed.

6.2.2 Support in Collection and Analysis of Market and Product Information

The first problem encountered by SMEs when they consider expanding their exports is the fact that, at the moment, it is difficult to acquire information on overseas markets and products. Thus, it is necessary to improve information provision functions. Many of the SMEs are complaining that they cannot obtain information on overseas market situations such as procurement sources, buyers and the introduction of new technologies, etc. Support provided from the standpoint of the SMEs is needed. In concrete terms, this means setting up a system allowing the SMEs to have easy access to the information they need.

6.2.3 Export Promotion Methods

Viet Nam's exporters cannot station representatives overseas, and so it is important to nurture people with know-how on overseas trading. There are many government officers posted overseas, but there are only a few experts in trade, about 20 in all.

Currently in Viet Nam, only 7% of advertising and PR costs can be written up as a cost on the books. This shows that Viet Nam lacks an awareness of the importance of advertising and PR. Thus, improvements should be made including a better awareness of the importance of these PR activities.

There are some organizations in Viet Nam engaged in export promotion-related activities including the VCCI and VICOOPSME. In order for these organizations to be able to effectively promote trade, it is necessary to support their activities by commissioning them to undertake

seminars, trade fairs and survey operations, and so allowing them to build up experience and know-how.

Japan's JETRO is engaged in introducing Vietnamese enterprises to Japanese companies and informing the Vietnamese enterprise of the technical cooperation programs available. The Government of Viet Nam should establish adequate networks linking up the Ministry of Trade and VCCI with the SMEs, and financial support to whom work to establish the networks would be effective.

Measures to solve this problematic situation include providing policy-driven lateral support for the diverse export promotion methods now being employed. At the same time, it is essential to deepen the relationships between foreign trade organizations and VIETRADE, the VCCI and VICOOPSME, and it is also essential to create extensive linkages between these Vietnamese organizations and the SMEs themselves.

6.2.4 Building up Export Financing

A rapid response is vital to the need for export financing, and it is important to be able to supply funds in a short period of time. It would be ideal to achieve smooth export financing on a commercial base by improving the credit standing of the SMEs and through progress in reforming financial systems. However, for the time being, the measure that is needed first will be support provided by the government export credit fund in order to enable export activities to take place.

6.2.5 Support in Product & Technical Development and Human Resources Training

As Viet Nam is already participating in the international economy, support in product & technical development and human resources training are vitally important. Although consideration is being given to creating a mechanism in which the state and universities undertake research & development and transfer this to the private sector and to utilizing human resources educated overseas, this does not cover a sufficiently broad spectrum. Over the past two or three years, many SME promotion centers have been set up. In order to strengthen the export competitiveness of the SMEs, training for incubation of management personnel, lawyers and technicians who have much higher knowledge and experience is necessary.

The need is for practical training, not courses focused mainly on theory. For example, graduates of the Trade University have no chance to gain practical work experience within the university, or even after being employed by some enterprises. Thus, it is necessary to dispatch

Vietnamese graduates to work in overseas trading firms to learn the ropes, or to provide adequate training given by international specialist in real-life trading work.

6.3 Measures

6.3.1 Thinking behind Measures

Broadly speaking, there are two measures needed to promote the exports of the SMEs. The first is to meet the requirements of AFTA and WTO in terms of creating a sound export infrastructure. The second is to improve Viet Nam's international competitiveness in view of the fact that within the ASEAN region, the national border barriers to trade and investment will be lowered. Regarding the first measure, improvements are being made through negotiations with WTO to obtain membership. In addition, many international organizations have made improvement proposals.

However, seen from the viewpoint of promoting their growth, measure that would have a negative impact on the SMEs should be improved quickly.

Consequently, in this proposal, we will concentrate on the second point. Under the present circumstance, the option of finding alternatives to importing to protect Viet Nam's own industrial sector cannot be adopted. Inevitably, the key element in the measures to promoting exports is to allow the SMEs to compete in the competitive arena of the international market. We will implement studies in each sector to decide what measures should be adopted by each industry in terms of international division of labor. We will study measures to promote exports that cover all sectors.

The basic policy in these measures is to make it easier for Vietnamese SME's to form trading relationships and joint relationships with its trading partners that are open to the world in a market and competition-driven environment which change frequently. It is not desirable to adopt a "picking winners" approach by strengthening only selected sectors. In concrete terms, this means that the core elements will be the development of networks able to promote relations with the customers and joint partners as well as the establishment of export financing and credit organizations. To promote the exports of the SMEs, several other measures will also be necessary. Looking at the current situation in Viet Nam, problems that come to mind include the lack of an effective support infrastructure and that the existing organizations are not configured to allow the SMEs to use them.

The following is an outline of the measures needed to promote the exports of Viet Nam's private sector in its entirety, formulated taking the foregoing objective into consideration, and keeping in mind the need to support the SMEs' growth.

- (1) Relaxation or lifting of regulations imposed on the SMEs such as tariffs and quotas
- (2) Provision of a one-stop advisory for export promotion and the provision of information on export markets and potential customers, and the provision of opportunities to export through product exhibitions, and trade discussions
- (3) Access to export financing
- (4) Implementation of management consulting services on practical finance, law, tax and exporting
- (5) Improvement of quality by the use of CTS inspection systems
- (6) Training in international standard accounting and technology
- (7) Research & development and technical support to strengthen export competitiveness such as improvements in product technology and quality (Caution is needed to avoid subsidizing exports)

Our suggested order of precedence in engaging in these measures is set out below.

Table 6-3 Sequence for Implementation of Measures

	-2005	2006-2010	2011-2020
Relaxation or lifting of regulations imposed on the SMEs such as tariffs and quotas	Quotas awarded entirely on a tend bid basis → Improving efficiency of customs paperwork		
Provision of a one-stop advisory for export promotion and the provision of information on export markets and potential customers	Commencement of information provision →		
Access to export financing	Export Credit Fund → SMEs Financing Corporation	Import-Export Bank→	
Implementation of management consulting services on practical finance, law, tax and exporting	Guidance by foreign specialists → Led by SMESC	Continuous implementation→	
Improvement of quality by the use of CTS inspection systems	General use of product inspection system →		
Training in international standard accounting and technology	Firm implantation of international standards →	Training human resources →	
Research & development and technical support to strengthen export competitiveness such as improvements in product technology and quality	Improvements in quality and technology →	Intensifying research & development →	Training human resources in advanced technology →

Source: JICA Study Team

6.3.2 Contents of Support Measures

We wish to propose the following in terms of measures to realize support functions centering on information, finance and technology.

Details of Export Promotion Support Measures

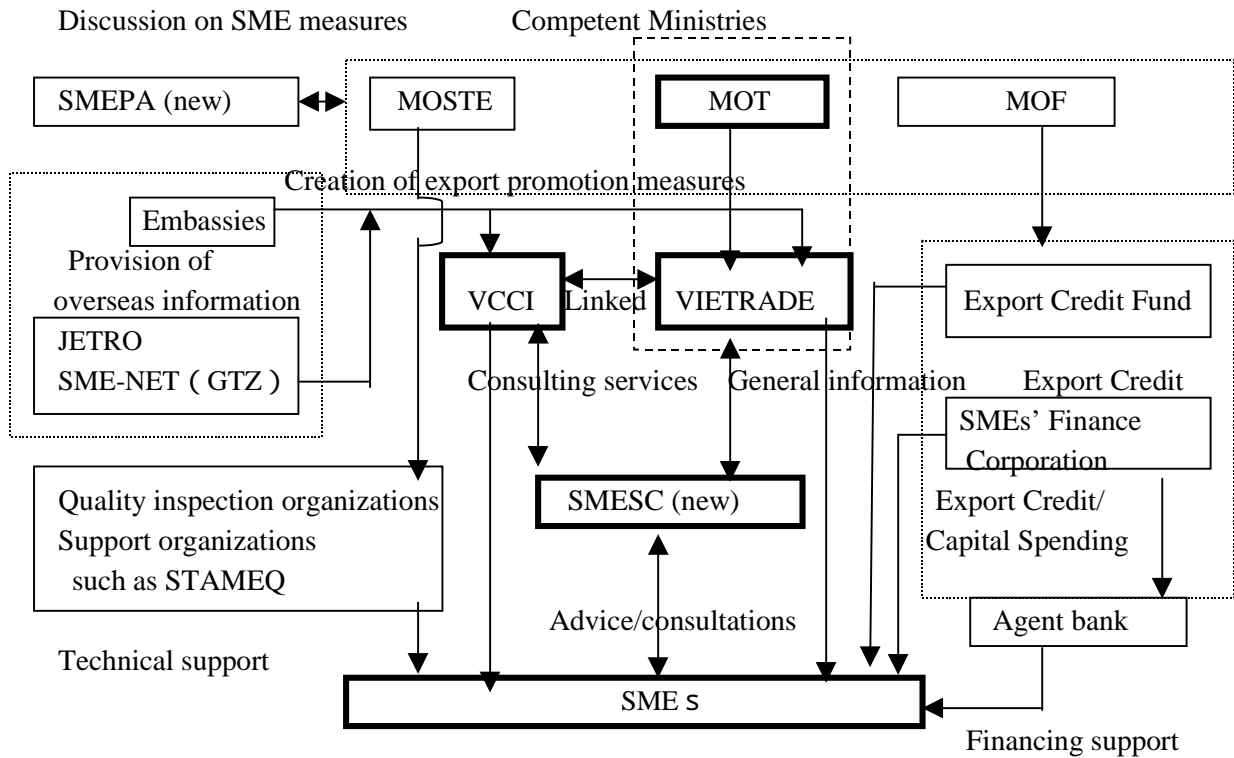
- The keys to achieving promotion of exports include two-way access between the customers and the SMEs and improvements in productivity and quality.
- Establishment of an implementation system to realize export promotion. That means establishing SME Support Centers (SMESCs) as one-stop advisory and support organizations coming directly under the SME Promotion Ministry. The officers in charge should widely publicize information such as their names and contact addresses so that the SMEs can access them easily. In addition, a system should be put in place enabling the SMEs to obtain easily understandable information on export promotion at the SMESCs on subjects such as seminars, training and exhibitions held by various ministries and related organizations. As a system to study measures, the local government should set up an SME support division (DOSMEP). For smaller scale local government bodies, it would be a case of appointing an officer within the Investment Planning Bureau to perform this function.
- The gathering of information (SME DB, trading partners (Buyers) DB, market information DB) and promulgation in publicity leaflets should be undertaken by the support provision organizations. VCCI should be responsible for specific paid services, and VIETRADE should provide general information. At the same time, the SMEs should have free unpaid access to the accumulated information via DOSMEP.
- For the time being, support in concrete form, that is consultations on exporting (introduction of specific types of customers and the standards required by buyers, etc.), should be available to the SMEs at the VCCIs located at eight points nationwide. At that time, it will be necessary to provide support on production control and technology able to meet the conditions of the buyers (delivery time, quality, and price). Thus, it is necessary to boost support in the areas of production control and technology by training consultants in these areas and putting a mechanism in place whereby they can be sent to where they are needed.
- The government should gather information through VIETRADE and provide subsidies to VCCI to strengthen its consultation abilities.
- The central government should not create a new organization to promote exports. It

should enhance the abilities of the existing bodies, that is VIETRADE and the VCCI. The Ministry of Trade should have overall control of export promotion. Regarding technology, MOSTE should be in charge, and regarding finance, the Ministry of Finance should have control. However, regarding measures directed at the SMEs, these organs should discuss measures with SMEPAs.

- The Import-Export Bank is oriented towards large-scale fund operations, and it is not immediately necessary for the SMEs to have access to them. For the time being, they should use the funds of the newly established SME financing corporation and the export credit fund.
- In order to ensure these bodies are rapidly established and to strengthen their activities, active consideration should be given to establishing a special budget to finance an export strengthening program.

We consider that the system shown below would be desirable to promote the measures we have outlined.

Figure 6-1 Export Promotion Network

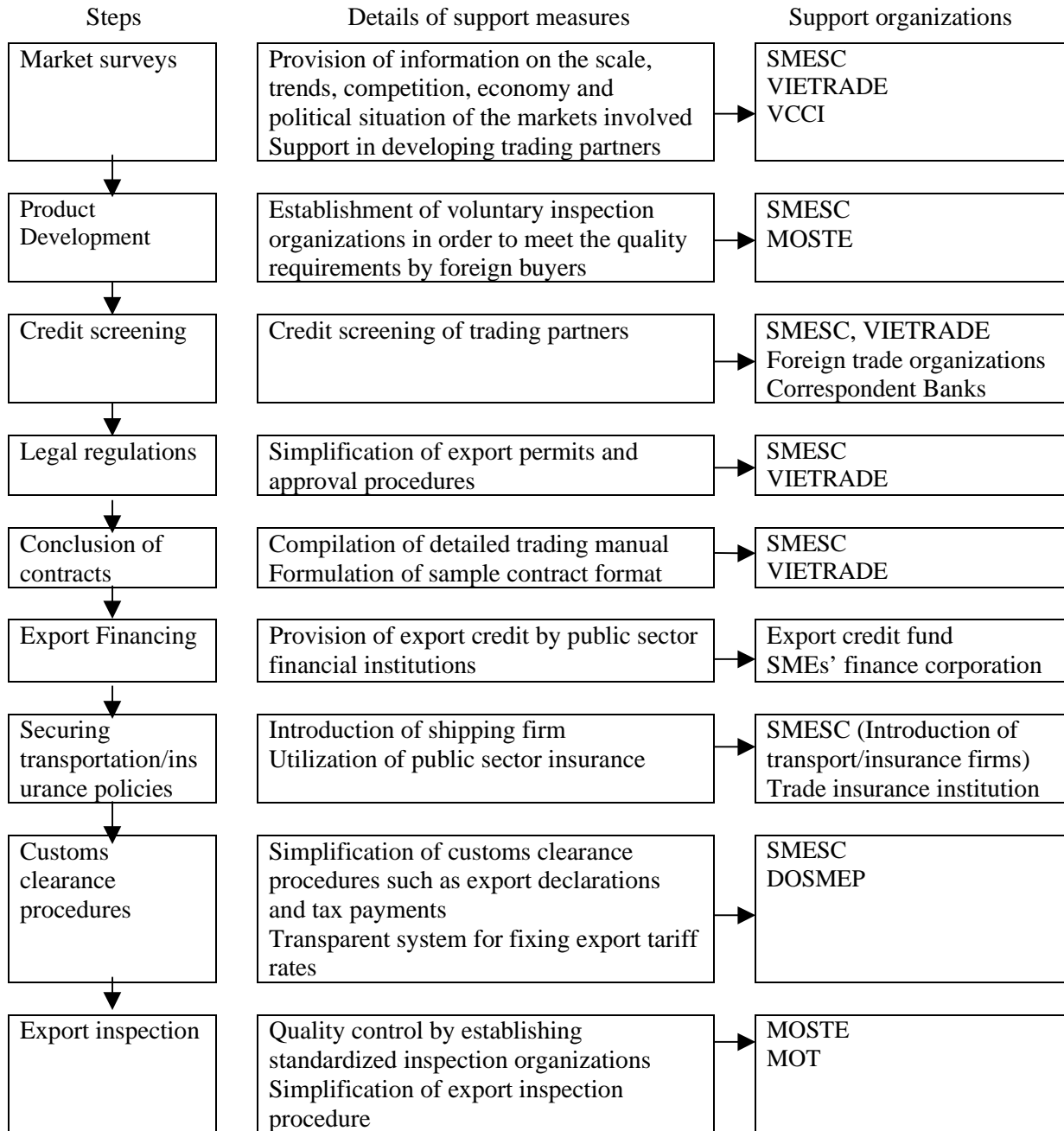


Source: JICA Study Team

It is necessary that the government side, that is MPI, MOT, MOSTE and MOF, engage in measures to support the export activities of the SMEs, each in its own area of competence. In addition to the efforts of the administration, expectation is also placed on the universities and VCCI, etc. To better facilitate trade promotion, we consider that it is necessary to form a network encompassing both public and private sectors under the SME Support Ministry, a body traversing all government departments.

Taking into consideration the current situation of Viet Nam's SMEs, the support details and related organizations at each stage of export are visualized as shown below.

Figure 6-2 Export Promotion Support Flow



Source : JICA Study Team

In order to work above measures and network well, a series of concrete export promotion programs is essential. Following draft programs focusing on assistance in information, finance, and technology should be considered to push export by SMEs upward.

A Example of Export Promotion Programs:

Duration: 3 years, from 2000 to 2002

Export Promotion Programs focusing on assistance in information, finance, and technology for SMEs should be announced in December 1999

Export Promotion Programs: Step 1

Preparation for an increase of export opportunity by SMEs, 2000

Information Support

- Export Promotion DB including Viet Nam SME database by product, potential buyer database from trade organizations from APEC/ASEAN countries, and commercial databases such as D&B, Financial times, and NIKKEI (should be built by VCCI under the order of VIETRADE)
- Establishment of SMESC Information Center (equipped with search engine for above databases in Vietnamese and on-line information system on custom and export procedures for SMEs)
- Training to SMESC members by Foreign Trade Organizations
- Issuance of Export Information News to SMEs that should include trade related information, introduction of success stories, and interviews with foreign buyers
- Global Promotion Tour of promising 100 Vietnamese Products to Asian, North America, and Europe

Financial Support

- Provision of 500 Export Credits by ECF to companies that have made contracts with foreign buyers and need financial support in material procurement and shipping samples (consultation by a foreign trade specialist should be the conditionality to receive the credit)

Technical Support

- Technical consultation to SMEs by specialists in quality control
- Improvement of export procedure and delivery of manuals

- Management and Technical Seminar for 1,000 Managers of SMEs

Export Promotion Programs: Step 2

Expansion of transactions and accumulation of experience, 2001

Information Support

- Maintenance and enhancement of DBs and SMESC Information Center
- Establishment of Viet Nam Trade Center in 5 countries
- The Second Global Promotion Tour of promising 100 Vietnamese Products

Financial Support

- Loans for physical investment by export expanding 100 SMEs

Technical Support

- Technical consultation on production control and development to SMEs
- Award for 100 export expanding companies
- Management and Technical Seminar for 1,000 Managers of SMEs

Export Promotion Programs: Step 3

Preparation for International Competitiveness, 2002

Information Support

- Maintenance and enhancement of DBs, SMESC Information Centers and Trade Centers
- The Third Global Promotion Tour of promising 100 Vietnamese products

Financial Support

- Loans for physical investment by export expanding 100 SMEs
- Loans for product development by export expanding 100 SMEs

Technical Support

- Technical consultation on production control and development to SMEs
- Award for 100 export expanding companies
- Management and Technical Seminar for 1,000 Managers of SMEs

7. TECHNOLOGY / SI PROMOTION

7. Technology / SI Promotion

The Technology / SI Promotion Program will be discussed here in five categories of developments, manufacturing, procurements, inspections, and sales. By reviewing the present activities of the SMEs in Viet Nam including support activities, A proposal, which must be implemented in the future, will be presented in this section.

7.1 Business Status of SMEs Associated with Technology / SI Promotion and Support Plan

7.1.1 Present Status of the SMEs by process

Firstly, activities of the SMEs in Viet Nam will be reviewed from process and industry points of view (further detail industrial information is described in each related chapter). There are few SMEs having development capability of original products. Delivery is almost supplied to retail market places. Production is done by old facilities, or labor oriented services. Quality is not stable, however the SMEs seldom have inspections to that poor quality. In the garment industry, production is done by consignments from the foreign enterprises. This business industry is expanding with high quality products by using of the newest sewing machines, tight production control and quality control, which are demanded from consignors.

Table 7-1 Status of SMEs in Viet Nam by Industry and Process

Industry / Process	Machinery / Parts	Electrical / Electronics	Garment	Others (Pottery, Food Processing, Plastics Forming, Wood Works)
Development / Design Works	Few development and design capability. But, have some design and production of imitations, followed by after the market.	Few development capability. But some SMEs can design of electric parts for industry.	Mainly consignment productions, But some SMEs are exporting original products.	Few SMEs have original products. Only imitations of foreign products with simple modifications.
Production	Many items and small volume productions by old facilities	Mainly handwork assemblies with labor oriented services	Mainly by sewing machines and labor oriented services	Mainly labor oriented services with old facilities.
Procurement	Mainly material procurements. Rarely procurement of parts.	Mainly material procurement. But some SMEs procure parts from overseas	Mostly raw material consignments from consignors	Raw material procurement are from on-site trading companies or other domestic enterprises
Inspection	Mostly No inspection. And low quality mind.	Mostly No inspection. And low quality mind.	Careful inspections applied for needles	No positive attitudes to inspections. Only following inspections and testing required by the legislation.
Sales	Limited for retail market places. But some of repair parts for facilities are delivered to enterprises.	retail market oriented.	Delivery is mostly for consignors	Limited for retail market places. But some are on direct sales

Source: JICA Study Team

¹ The term "supporting industry" (SI) refers to the aggregate of industries in possession of fundamental technology in areas such as metal stamping (pressing), machining, metal mold manufacture, heat treatment, plating, forging, and casting.

7.1.2 Present Status of Technology / SI Promotions

Support activities will be summarized here by process. Basically, supports are given to the SOEs and seldom to the SMEs. In addition, the support information is not notified enough to the SMEs. Almost all of the SMEs are not aware of such support information.

For development and designing, the promotion activities are not so active because of low demands from the SMEs. Supports such as technology transfer from ISTSP (Institute of Science and technology Strategy and Policy) of MOSTE and collaborations among technological colleges are being implemented mainly to SOEs. For productions, there are some training programs. For instance, “Production Control” or “Consulting Services” are provided in charge of VPC (Viet Nam Productivity Center) of Directorate for Standards & Quality (STAMEQ) under MOSTE, and “The use of the newest facilities” or “CAD utilization” are provided by training organizations (for instance, IMI: Institute for Machinery and Industrial Instruments) under MOI. However, the support to the SMEs is only limited to skills training. For procurement, some private organizations have a directory, but only company names and telephone numbers are listed. Also, it is not timely updated and many lacks of information, therefore, effective activities are not expected. As to inspections, those required by the legislation are being conducted by Quality Assurance and Testing Center (QUATEST) under STAMEQ of MOSTE, or by Department of Science and Technology & Environment (DOSTE) under the public committee, but it is not supportive guidance and rather compulsory inspections. For sales, VCCI and VICOOPSME have plans of exhibitions or trade fairs, but not for SMEs. Inquiries from overseas are given to the SOEs preferentially. It is difficult to say that enough supports are given to the SMEs. These support activities are summarized in table 7-2.

Table 7-2 Present Status of Support Activities

Process	Support Plan	Responsible Support Organization / Contents
Development / Designing	<p>New Products Development Support / New Technology Supports (Collaborations, Technical Support, etc.)</p> <p>Human Resources Education for design capability</p>	<p>For collaborations, Technical colleges have implemented collaborations. Universities give logical advises to enterprises. The enterprises have developed new products based on the advice. Technology Exchanging / Technology Transfer are implemented through the International Cooperation Organization, but not for SMEs. It seems that institutes of inspection/testing such as STAMEQ advise quality inspections from product development points of view. But low actual performance.</p> <p>Foreign companies are transferring technologies to vendors, but for large enterprise oriented, not for SMEs because of no business. At the technical colleges, CAD application is instructed from basic theory to physical design works. But skilled person cannot be supplied, because of lack of practical training.</p>
Production	<p>Support of New Facilities Installation</p> <p>Support of Production Control</p> <p>Common Use Facilities / Rental Facilities</p> <p>Skilled Workers Education</p>	<p>Through the International Cooperation Organization, the newest facilities have been installed to the research institutions and some of large enterprises, but not to SMEs. Funds support for the facility investment is not adequately conducted</p> <p>Some of public research institutions like VPC provide consulting or training programs. But it is limited in number and for SOEs oriented, not for SMEs.</p> <p>There is no organization for rental facilities. For the part time use, Some of enterprises are utilizing common use facilities each other</p> <p>Training courses for skilled workers are implementing at IMI or technical colleges, but not fully settled up due to low demands and poor facilities. Another reason is limited number of instructors. In education system, there are some Technical Secondary Workers school, but limited in number and poor facilities. Especially, problems are existing in casting and plating area.</p>
Procurements	Introduction of suppliers	VCCI and VICOOPSME have provided directories of the SMEs and submitted that information to foreign-affiliated enterprises and SOEs as a candidate of cooperative subcontractors. But it is not effective so far.
Inspections	<p>Agencies for Inspections</p> <p>Supports of Inspection tools</p> <p>Advice for inspection methods</p>	<p>There are public laboratory organizations, which mainly conduct inspections required by the legislation. Seldom do self-inspections.</p> <p>There is no support for inspection facility investments.</p> <p>Advice is given only for required inspection. Recently, advice for international standard related such as ISO is increasing.</p>
Sales	<p>Making Directories</p> <p>Exhibitions</p> <p>Introductions of customers</p>	<p>MPI and VCCI have provided directories of the SMEs, but not updated. The contents are not enough, because of many changes of the SMEs, and self-employment is not affected.</p> <p>VCCI, VICOOPSME, and UAIC have hold exhibitions. But they are not so effective, because of rather small size and not so many opportunities.</p> <p>VCCI does introduction service, and handles inquiries from enterprises and introduces candidate of supplies. However, enough services are not applied on the SMEs. It is habitually given to large enterprises, because they used to be handled the inquiries from overseas to large enterprises oriented.</p>

Source: JICA Study Team

7.2 Problems of the Technology / SI Promotions

7.2.1 Problems and Expectations Existing in the SMEs.

The present activities of the SMEs were discussed before. Problems on the activities, which were brought up from the interview with management of the SMEs, are summarized in the table 7-3. In the machinery and machinery parts industry, many SMEs have problems on production facilities and they want to increase production capacity and improve quality by installation of the latest new facilities. However, even if they had the newest facilities, they would have no confidence for the capital depreciation. In the electrical and electronics industry, many SMEs have the same problems as the machinery and machinery parts industry have. In the garment industry, there are some SMEs, who want to move out from the consignment business and move in the original commodity market. However, some problems are existing on the design capability. In other industries, further technical know-how is requested, because of lack of technical skills. Also there are many problems existing from the sales point of view.

Table 7-3 Problems Existing in the SMEs in Viet Nam

Industry / Process	Machinery / Parts	Electrical / Electronics	Garment	Others (Pottery, Food Processing, Plastics Forming, Wood Works)
Development & Designing	Most of SMEs have no development capability and they have no sensitivity on problems.	(Same as left)	In order to promote export, development of the design capability, original commodities and enhancement of the marketing channel are required.	No specific problem is existing.
Productions	Because of old facilities, replacement of the facilities is required, but have no funds for the investment. Even if installed, Full utilization of the facilities will be difficult, because of no enough production demands. Capital depreciation will be also difficult. Also, Even if the newest facility was installed, it becomes to be meaningless, because they have no enough knowledge how to use them.	There is no demands for new facility because of handwork oriented operations. Also, there are hardly SMEs to start capital intensive business such as electronics parts industry	SMEs are not aware of the problems which exist in the production system.	Because of old facilities, Replacement of the facilities is required, but have no funds for the investment. Also, they want to have technology transfer from SOEs, because they have less know-how.
Procurements	SMEs have satisfied on the current business and have no any problems. Some of SMEs have funds problems for material procurements.	(Same as left)	There is no problem on consignment business. But, there are some problems of no suppliers for high quality clothes and other sub materials, in case of development export	There are no any problems existing in relation with clients. Some of SMEs have funds problems for material procurements.
Inspections	Concept for inspection is hardly existing. Some SMEs realize importance of the inspections, but no tools so far.	(Same as left)	Establishment of the Inspection system is important to quick response to foreign customers.	Some SME complains about accessibility to inspections required by the legislation.
Sales	Many SMEs have satisfied on current market. But SMEs who have finished products, want to expand their business markets including exports.	(Same as left)	Consignment business needs more consignors. Development Export has problems on the market access.	There is no way to market access for regional market expansion.

Source: JICA Study Team

7.2.2 Future View of the SMEs to the Objectives

The table 7-4 indicates the future view of which the SMEs in Viet Nam must take step forward to the target. With expanding of the current market, the SMEs will improve their

technical skills by 2005, such as design and production control capabilities or accuracy. To achieve the objects, They have to realize the importance of quality or accuracy of products. Also, with improving design capabilities by 2010, they challenge to the technology to make original products. By this time, business trades within domestic enterprises will be increased and their technical skills will be improved through their competitions. In a long time span, entering to the overseas market with original and precise commodities can be seen in the future views.

Table 7-4 The Future View of the SMEs in Viet Nam

(In Case of Machinery and Machinery Parts)

Timing Process	Short-term (2005)	Middle-term (2010)	Long-term (2015 - 2020)
Development / Designing	For the time being, drafting of imitations or simple parts will be a target. Skills for tracing, hand drafting, or part of CAD will be required.	Development of design capabilities with shape designing. Installation of 2D CAD.	Development of original products by material and strength design engineering. Installation of 3D CAD. Commodity Developments by implementing Marketing.
Productions	Productivity developments by installation of general use machines and partially automatic machines like CNC. Reductions of defectives with high quality mind. Accuracy : $\pm 0.05\text{mm}$ QC activities : 5S etc.	Installation of precise machine tools and machining center, and improvement of accuracy and productivity. Reductions of defectives and process steps by design changes. Accuracy : $\pm 0.02\text{mm}$ QC activities : KAIZEN etc.	With installation of 3D CAD/CAM and the form detection, further improvements on productivity will be achieved. Accuracy : $\pm 0.01\text{mm}$ QC activities : CAE,CAT etc.
Procurements	Improvement of stock management and reductions of inventories. Some enterprises will source out part of the process to outside.	stock and supplier control will be implemented with accurate production planning	Supplier Management by utilizing of Information Technology such as CALS.
Inspections	Quality audit conducted by outside organizations (Understanding of product quality level) Installation of small inspection tools	Quality improvements built in product design. Utilization of common inspection instruments.	Improvement of QC management capabilities like as advanced industrialized countries and achievement of the six sigma quality.

Source: JICA Study Team

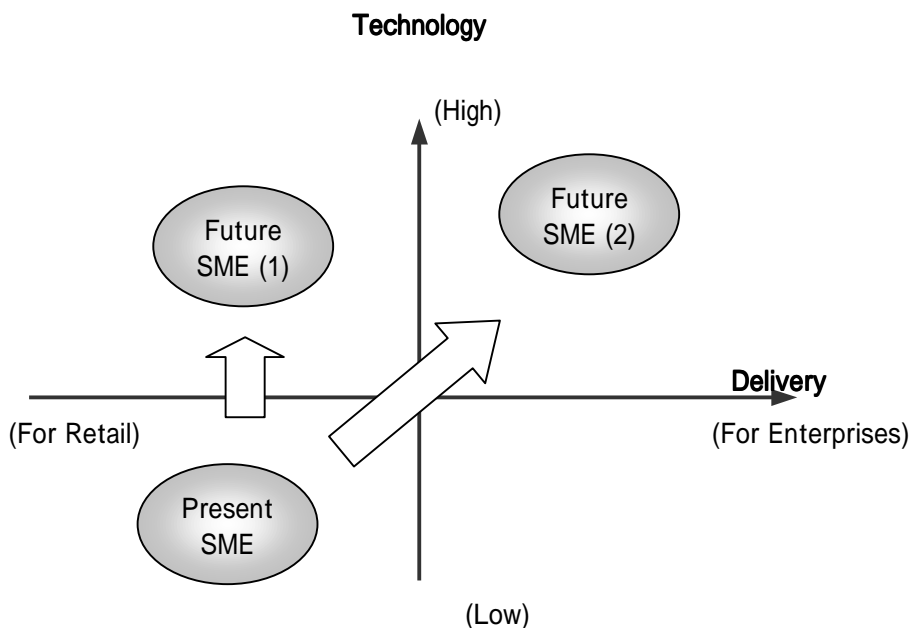
The figure 7-1 indicates the present and the future views of the SMEs in Viet Nam with axes of client versus technology capabilities. The current SMEs are making mainly repair parts based on market requirements or introductions from acquaintances. They are not specialized in specific business area, but accept anything based on requests. In other words, it

is not related with their skill confidence, their present fundamentals are to make anything if requested. In the future, some SMEs, which are specialized in the retail markets with original finished products (SME1), will be appeared with improvements of technology skills. And another SMEs, specialized in the technology area (SME2), will emerge by improvement of technology capabilities through business trades with specific clients.

The former SMEs have their market channels and capabilities of marketing to design, manufacturing and sales by improvements of marketability. The characteristics of these SMEs are high level planing, development and design capabilities and ideas.

The latter are specialized in the specific technology area, and have manufacturing capabilities to make products faster and cheaper by improvements of production plan and control and quality control management. In Viet Nam today, Clients to be delivered are limited mainly to foreign-affiliated enterprises. It is expected to expand their deliveries to outside of Viet Nam. When diligent Vietnamese have skills, Viet Nam will have strong export competitiveness to other ASEAN countries with cheap labor cost and abundant labor forces.

Figure 7-1 Direction of SMEs to the Objectives (Clients vs. Technologies)

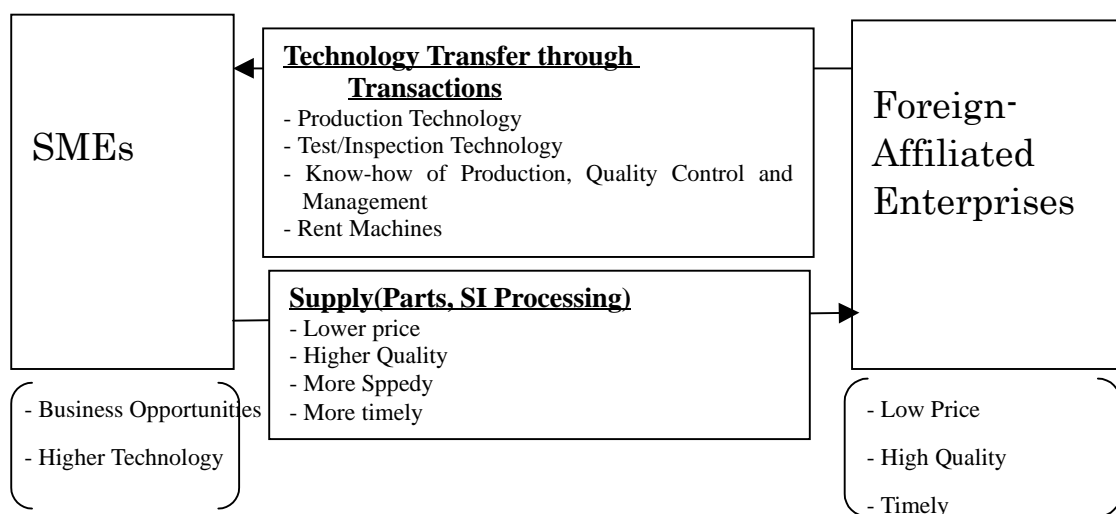


Source: JICA Study Team

By starting business with foreign-affiliated enterprises, the SMEs will expand the business. It is expected that the SMEs will share part of the basic technology areas including part of assembly business areas.

Specially, a foreign-affiliated enterprises are aiming at the cost reduction and the shortening of the lead time by supplying the parts and SI processing which are imports or manufacture inside from the domestic enterprises. And, foreign-affiliated enterprises have been required to pull up of the local contents ratio by government. In developed countries, component production and SI processing are left to SMEs which have a high adaptability (a key strength of smaller enterprises relative to large ones) for accommodation of needs and possess specialized technology. These SMEs engage in component production and SI processing with high levels of quality at low cost, and this has the effect of elevating the competitiveness of the assembly firm products in the international market. Foreign-affiliated enterprises are hoping for the emergence of SMEs that will enable the construction of such production setups in Viet Nam as well. Once, if transaction starts, foreign-affiliated enterprises would like to provide the production technology, inspections technology, and the know-how of the quality control and the production control. Furthermore, it is sometimes provided to the loan of the product facilities and the capital. Then, they aim at growing to be each other. In other words, it becomes possible that integral technical abilities improve by transacting with foreign-affiliated enterprises in the SMEs.

Figure 7-2 The Effect Expected by the Transaction of the Foreign-Affiliated Enterprises and SMEs



Source: JICA Study Team

7.3 Technology / SI Promotion Policy for SMEs

7.3.1 Support Plan for the Technology / SI Promotion of SMEs

The support plan to achieve the future view of the SMEs will be discussed here by analyzing business needs, and summarized by business process.

For development and designing, there are few support needs at present, but some support plan will be discussed here, because that will be required in the future product developments. For productions, supports and consulting for the new facility installations, production plans and controls and human resources education are highly requested. For procurements, supports are not so expected at present, but improvements of the directories or introductions to the suppliers are much expected for the future business extensions. For inspections, few of them do inspections presently at the SMEs, but understand its importance. Therefore, supports in this area will be important for the future view. For sales, there are a few SMEs, who want to increase direct sales to the retail market or to expand their market with consignments of repair parts from their customers. But they seek such supportive opportunity if any.

Table 7-5 Necessary Support Plan for the Future

Support Process	Support Plan	Contents of Specific Support
Development. & Design	New Products/Commodities New Technology Supports (Research Collaborations, Technology Cooperation, etc.) Human Resource Development for design engineering	Support of Skills up of Designing Advice of New Commodity from Marketing to Planning Introduction/Coordination of Technical Supporters Support of Technology Transfers from Foreign enterprises or Universities Development of Engineers having Design skills and knowledge at Universities.
Productions	New Facility Installations Common Use / Rental of Facilities Production Controls Quality Improvement Supports	Funds Supports for New Facilities Instructions for Use of New Facilities / Advice of Effective Utilization of New Facilities. Rental Service for General use Facilities (Lending of Facilities) Time Sharing of Special or New Facilities (Common Use) Advice or Consulting Services for Plant layout, Manufacturing Process standardization, etc Advice or Consulting for Production Controls and Scheduling or Maintenance of Agricultural Machinery. Human Resources Education for Production Control and Planing Advice/Consulting for Quality Improvements (5S、 KAIZEN, etc.)
Procurements	Introductions of Suppliers Supply/Inventory Control	Directory of Suppliers Advice for Inventory Control
Inspections	Agency for Inspections	Services for Quality Evaluations and Testing Advoce for Inspection
Sales	Introductions for Clients Implementation Exhibitions	Directory / DB of Clients and Consignment Contents, Implementations of Various Exhibitions

Source: JICA Study Team

Furthermore, long-range support plans from needs of the SMEs point of view are summarized in the following figure. In the short term, supports will be mainly applied on productivity improvements, which is maximum utilization of existing facilities through common use of facility and production control and planing, and quality improvements. In the middle-terms, Building infrastructures for business extensions, such as introductions of clients and suppliers, will be highly expected. In the long terms, supports for productivity improvements or developments capabilities, for instance, capabilities for new facility installations or commodity developments, are highly expected.

Table 7-6 Long Range Supports in View of Needs of SMEs

Process	Support Plan	Short-term (up to 2005)	Middle-term (up to 2010)	Long-term (up to 2015)
Development & Procurement	Commodity Development			
	New Tech. Supports (Collaborations, Technical Cooperation)			
	Resources Development for Design engineering			
Productions	New Facility Install.			
	Common use / Rental			
	Production control / Planning			
Procurements	Introduction Suppliers			
	Supply/Inventory control			
Inspections	Agency of Quality Inspections			
	Quality Improvements			
Sales	Introduction Clients			
	Exhibitions			

Source: JICA Study Team

7.3.2 Measures for Technology / SI Promotion of the SMEs

By reviewing the Technology / SI Promotion, which is presently implemented in Viet Nam, in comparison with the needs from enterprises and the Technology / SI Promotion, measures required for the future Technology / SI Promotion in Viet Nam will be discussed here. In the short term, common facilities which SMEs can utilize for inspections, directories as data base to realize various business trades, introductions and coordination services to support trades with foreign-affiliated enterprises, training for production and quality controls, plant audits, various information provision, and so on will be implemented. Especially, the Center for Technical Support aiming at productivity improvements and the Center for Promotion of SI Transactions to activate business trades will be established in Hanoi, Ho Chi Minh city and so on. Both organizations will conduct training courses for production and quality controls and providing necessary information. In the middle terms, full supports to activate business trades among the enterprises that were conducted in the short terms to the foreign-affiliated enterprises, fund supports for new facility investments, advice for utilization of advanced facilities, and etc. will be conducted. In the long terms, training and human resource education for original product development capabilities, etc. will be implemented. Following is a summary of outlines of the specific measures.

(1) Technology Development Support

The present SMEs seldom have necessities and intentions to the original product developments, So supports are not so urgently required, but some measures will be required when future development of the SMEs is considered. For instance, advice of technology developments, technology transfers, and research collaborations will be required. Especially, on the technology transfers, if the foreign-affiliated enterprises or overseas enterprises having OEM supply in the domestic increase the technology transfers to the SOEs, a technology migration to the SMEs is expected. Therefore, to promote the technology transfer from overseas enterprises to SI or parts makers, information supply that includes names of domestic SMEs seeking license affiliations, overseas export organizations, or overseas SMEs organizations (overseas SI, industrial organizations of parts makers, chamber of commerce and industry of prefecture level) will be important. And a coordination service to match both side requirements is desired.

(2) Enhancement of Production capacity

Among SMEs who have facilities, these facilities are not maximum utilized yet. Training courses such as production plan and control and quality management or consulting by plant audits will be implemented for the maximum facility utilization. Also, there are many cases,

which cannot meet technological demands because of no machinery or no supporters for such demands. Centers for Technical Support, whose facilities can meet to such high technical demands and can be commonly used with cheaper cost, will be constructed. These are major problems, which the SMEs have today. Supports to meet these needs are required.

(3) Enhancement of quality management

It is said for overall of Vietnamese industry that products are poor in quality and many enterprises do not realize their position in the industry. It is difficult to improve their technical skills, as far as they do not know how technical level they are in. So, this will be one of the important measures.

(4) Activation of business dealings

Supports for business or sales promotions among enterprises, especially driven by SI enterprises, will be implemented. Since almost all of domestic enterprises want to have entire processes of production line. It is not so strong needs, but there are some requirements to source changes of parts procurement or processes out to other enterprises, especially by foreign-affiliated enterprises. In order to let the enterprises realize their technological skill levels through the business trades, this measure of support should be taken urgently.

(5) Supply of Various Information

It is necessary to supply systematically such information that the SMEs are now getting from their acquaintance. Almost all of the SMEs cannot obtain necessary information other than their acquaintance. So, It is necessary to establish a secure system to obtain information easily. This is also needed urgently to support. Presently, some organizations have training programs for improvements of management capability. Enhancement of these activities will be implemented.

(6) Education of Human Resources

The present SMEs seldom have needs to secure human resources, but will need the resources when they grow up to large enterprises in the future. It is important to prepare the human resources from now. In the enterprise-based training programs, the SME need rather wider range of skills. Therefore, the education will be focused on necessary knowledge and experiences.

(7) Finance / Credit Guarantee System

Because Finance and Credit Guarantee System are essentials for the SME to purchase new machinery, this is also an important measure for the support. In addition, it is necessary to establish a system to provide financial assistance for R&D activities.

(8) Tax system

The tax system can be incentives for research developments and new facility installations. Introducing the tax and financial incentives for middle and long terms will be desired.

(9) Promotions of organization activities by industry

The purpose is that SMEs, who are weak in the society compared to the large enterprises, and to be organized and appeal to the government to submit their proposal. Presently, there are few organization activities. The support, such as submitting proposals or promoting various organization activities, will be important.

The table 7-7 indicates systematic view of the support plans

Table 7-7 Systematic View of Support Plans of Technology / SI Promotion in Viet Nam

Major Category	Middle Category	Contents	Time Frame		
			-2005	2006-2010	2011-2020
Enhancement of Technological Development	Advice for Technology Development	Advice for Technological Development			
	Support for Technology Transfer	Technology Transfer from Oversea Enterprises and Universities Support for Technological Cooperation between Domestic Enterprises			
	Promotions of Collaborations	Support for Collaborations with Institutes, Universities and Overseas Enterprises			
Improvement of Production Capacity	Common Use of Prod. Facilities	Constructions of Common Use Facilities Centers(Center for Technical Support)			
	Advice for Facility Utilization	Advice for Utilization of the Newest Facilities			
	Plant Audit	Sending Experts from Overseas and Plant Audits by Domestic Authorities			
	Advice for Plant Expansions	Advice of SMEs Move out to Suburbs and New Factory Constructions			
Improvement of QC Management	Common Use of Inspection Tolls	Constructions of Common Use Center of Inspection Facilities(Center for Technical Support)			
	Advice of Insp. Tool Utilization	Advice of Utilization of Advanced Inspection Facilities			
	Introduction of TQM, ISO	Promotions of Introductions of QC Management such as TQM or ISO			
	Provision of Standardization	Advice of Alignment of TCVN and ISO in Modernization and Standardization			
	Fulfill of Public Agency of Inspections	Improvement of Inspection Capabilities with QUATEST or DOSTE Implementation of Advanced Inspections with world wide level.			
Activation of Business Dealings	Fulfill Data Base of enterprises	Provision of Data Base for enterprises(Center for Promotion of SI Transactions)			
	Introductions / Coordination of Business	Introductions/Coordination of Business between Overseas Enterprises and SMEs.			
	Various Trade Fairs	Exhibitions for Development Supports of New Clients for SMEs			
	Support for Export/Import	Advice for Export/Import procedures or Foreign Country Characteristics			
Information Supply	Training Programs of Marketing	Implementation of Training Programs to improve Marketing Capabilities			
	Information for New Technology and Facility	Translations of Current or Overseas Information of New Technologies and Facilities			
	Supply of Patent Information	Submit of Domestic/Overseas Patent Information to SMEs.			
	Market Inf. (Domestic / Overseas)	Analysis/Submit of Market Information to SMEs			
Education of Human Resources	Education of Skill Workers	Development of Technical School / Secondary School, Education of people who can be utilized at once			
	Education of Engineers	Enrichment of Technological Colleges, Education of Design and Process capable engineers			
	Enrichment of Enterprises based Training	Increase Job Opportunity of Employee through Technical Training Program Enhancement of Multi-skills Workers with wide range knowledge			
	Install Trade Skill Test System	Measurement System of Skilled Workers such as Machining or Sewing			
	Abroad Student System	Increases of Overseas Opportunities to Study			
Finance/ Credit Guarantee	Supports for Fund Management	Promote Finance Public Corporation (plan), Credit Guarantee system (plan)			
	Fund Mgt. for Research Development	Promote Finance Public Corporation (plan), Credit Guarantee system (plan)			
TAX System	Tax / Financial Incentives	Establish Tax and Financial Incentives, Promote Facility Investment			
	Tax / Financial Incentives	Establish Tax and Financial Incentives, Promote Research Development			
Activity Enhancement of Associations by Occupation	Establish Associations and Support Activities	Establishment of Associations for Information Exchanges or Joint Business, and Support Activities.			
	Support for Submitting Proposals to the Government	The Associations submit Appeals of Common Problems or Requests existing in the SMEs to the Authorities.			

Note: indicates : Importance to implement The most Important Measure Not so Important

Source: JICA Study Team

7.3.3 Specific Support Plan

At the present in Viet Nam, there are some supports given to the SMEs, but the services are independently supplied from indivisional authorities. Complains, such as access points to the services are not clear to them, or suitable services fitting to needs are not provided even if it was accessible, have been raised as a problem. Single organization, which can handle whole services to the SMEs or providing whole necessary information for applications, are strongly requested to establish. However, consolidating requirements, which exist in both technology and business supports, seems not easy, because they are different characteristics. Establishment of an organization for technical support (proposed name: Center for Technical Support) and for business development support (proposed name: Center for Promotion of SI Transactions) will be suggested. Both centers will help the weak areas where current supports are not enough. Also, they are expected to help introduction services in cooperation with existing support organizations.

Although the centers receive official support, their operation should be grounded in essentially independent finances.

(1) Center for Technical Support

The center will provide services to technological problems that the SMEs are in troubles. A view of the center will be discussed here in the view of the machinery and machinery parts industry.(proposed name: Center for SI Technical Support) But the centers should be established in meeting with local industrial requirements, which differ in sewing, pottering, food processing, wood works, and so on.

1) Outlines of the functions

<Facilities>

Machinery and other tools will be opened as common use tools, and visitors can use these tools freely within a contracted time (cheaper fee will be set). The center will provide the newest facilities or special tools in advance to which the SME will have someday, and let the SMEs use the tools for machining of the products or a trial use before their installations. Also, any advice will be supplied. With installation of computers, advice or instructions including CAD, CNC machinery and CAM will be provided. Presently, since some technical support authorities such as the IMI under the MOI are providing advice or training programs for new facilities utilization, it is desirable to cooperate with these authorities on instructors, programs, and so on.

Table 7-8 Proposal for Specific Machinery to be Installed

Short term items of machinery (proposal)	Long & Middle terms items of machinery (proposal)
<ul style="list-style-type: none"> • 2D CAD • CNC Lathe • CNC Milling machine • Surface grinding machine • Die-sinking Electric spark machine • Electric Furnace • Plating Facilities (Zinc etc.) 	<ul style="list-style-type: none"> • 3D CAD • Turning center • Machining Center • Shaping Grinding machine, Profiling Grinding machine • CNC Electric spark machine • Vacuum Furnace • Plating Facilities (hard chromium, Composite plating)

Source: JICA Study Team

<Measurement Tools>

There are not many SMEs having measurement tools. For the future industrial developments of Viet Nam, improvements of product accuracy will be required. The SMEs have simple tools like a vernier etc, but hardly have high level tools like laser measuring apparatus. Therefore, grasping the accuracy of their products will be the first step. The support center will provide inspection facilities, and not only evaluate the product accuracy, but also advise on how to use the facilities. Consequently, this will make them a chance to have their own tools with improving their technical skills.

Presently, many kinds of inspection facility are installed at QUATEST under MOSTE or DOSTE under People's Committees. So, it is desirable that for the time being, the center supports the SMEs by utilizing these tools in cooperation with these organizations, and then install dedicated tools for the center. Concerning advice or training for inspection techniques or methods, it is desirable to carry the support programs with utilizing existing programs in cooperation with related organizations.

Table 7-9 Proposal for Specific Testing Machinery to be Installed

Short term items of machinery (proposal)	Long & Middle terms items of machinery (proposal)
<ul style="list-style-type: none"> • Tensile Strength Tester • Hardness Tester • Measuring Projector • Ultrasonic Detector • Magnetic-particle Tester etc. 	<ul style="list-style-type: none"> • SEM • 3 D Measuring Tool • Magnetic Detector • Circularity Measuring Tool • Metallographic Tester etc.

Source: JICA Study Team

<Technical Training Programs>

Presently, universities and institutes of MOSTE or MOI have some technical training programs, but not enough in quality and volume. Dedicated programs for the SMEs will be provided and implemented in harmony with existing programs. The program will be carried with all of the facilities of the centers. And, it is desirable to proceed the programs with cooperation of existing organizations on instructors and curriculums.

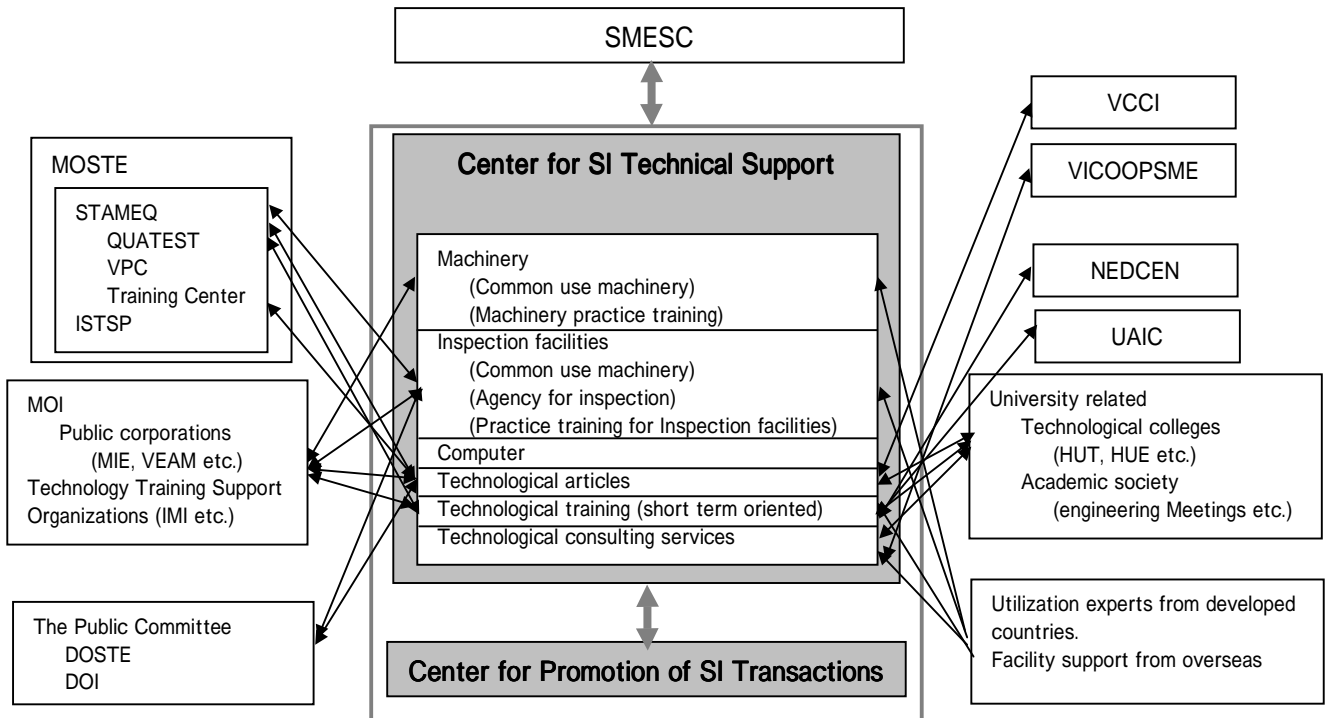
<Technical Information (Libraries or On-line Database)>

Presently, researchers or scientists belonging to public corporations of MOE or MOSTE are collecting information regarding new technologies or materials and submitting the information to interested organizations. But there is no way for the SMEs to reach such information. Therefore, by collecting necessary information including overseas one and providing on-line database, the information environment improvements, which is access free through on-line system, will be implemented. For the time being, it will start to collect available data in domestic with the cooperation of MOI and MOSTE, and in the future, will increase specifically intentioned information, and submit analyzed information by purpose.

<Technical Consulting Services>

Technical consulting services will be conducted. The experts of the centers will advise the SMEs based on problems brought up from the process of designing to productions. It is desirable that the technological consulting services are to be conducted with the cooperation of overseas experts or scientists from universities.

Figure 7-3 Functions of Center for SI Technical Support and Cooperation with Other Organizations



Source: JICA Study Team

2) Concrete Proposal for Establishment

<Proposal for locations>

Firstly, the center will be opened in Hanoi and Ho Chi Minh city, where many SMEs are located, secondly opened in Danang as a core city and finally in local cities. It is expected that the centers located in local cities will be specialized with characteristics of local products like as pottery or food processing. Especially in Ho Chi Minh city, there are many SMEs making repair parts or imitations in Ward 6, 10, 11 and Tanbin (they are mostly self-employment). In these SMEs, concerns of technologies and product accuracy, or expectations to the centers are increasing. The centers are much expected from these SMEs.

However, for one of the plan, which the centers will be installed into the existing institution organizations, but they have distrusts on the current institutions and majority of their opinions, that were raised through the interviews, was to have the center separately. (There are many cases in which the institutions do not provide effective advice, and introduce very expensive private advisory organizations.) For instance, HEPZA is developing some of industrial zone, adjacent with these densely built up areas. HEPZA has much concerned on the

support center for the SMEs. On the organization structures, it is desirable that the centers are placed directly under SMESC and run the development supports with cooperations of Production Facility Training Organization under MOI (IMI etc.), Training Organizations (VPC etc.) under MOSTE, Inspection Organizations (QUATEST), and other related organizations.

<Proposal of Installation Time>

The installations of the center in Hanoi and Ho Chi Minh city are much expected to be as earlier as possible. It is recommended to start a feasibility study in 2000, a detailed design in 2001, a construction in 2002, and the part of activities starts in 2002. Since it is difficult to do all functions of the services at the start timing, firstly software oriented works like technical information supports, technical consulting, and training supports, etc. will be started. Secondly, installations of machinery and inspection facilities.

<Proposal for Instructors and Lecturers>

In Viet Nam, there are not so many experts having experiences or/and knowledge in production machinery or inspection facilities. Considering this condition, it will be difficult to secure these resources at the starting time. For the time being, it is desirable to receive experts from existing organizations like IMI or STAMEQ, or receive experts from overseas.

<Proposal for Other Services>

Companies which have received training or inspections by these institutions (or are doing so on a continuous basis) should be offered benefits in the aspects of credit guarantee and SME financing. To this end, records should be kept of all past acts of assistance for companies. And the center issues the certificate to them. These certificates are to be presented to the inspecting institutions when companies receive any type of financial aid. This will enable the inspecting institution to evaluate the company's credit from the technical standpoint, and also serve as effective information on the occasion of inspection.

(2) Center for Promotion of SI Transactions

This is the center to promote the trading of SMEs. Those who are enthusiastic to start trading with the SMEs are mostly foreign-affiliated enterprises. Thus the Trading Promotion Center will support the SMEs to open business with the foreign-affiliated enterprises first, and then promote the trading within SMEs, and in the long run with major domestic companies. Now VCCI as a domestic organization and JETRO and KOTRA as overseas organizations are

assuming the main role of promoting the trading with overseas companies. The Trading Promotion Center will cooperate with these organizations to develop overseas market.

1) Functions

<Introduction & Coordination of Business>

When a company inquires to the Center for Promotion of SI Transactions for information of suppliers, the Trading Promotion Center will submit several candidates from the directory of the SMEs to do introduction and coordination services. The directory is expected to include not only the names and the contact points but also the information of facilities, engineering capability, production control and quality control. And it is necessary to maintain updated information, because activities of the SMEs are changing day by day.

The foreign-affiliated enterprises who are much concerned of increasing the local contents and reducing manufacturing cost, will be targeted as customers firstly. Then, it is desirable to increase gradually domestic trades within the SMEs, and with major companies like SOEs, and later the trade with the overseas.

The foreign-affiliated enterprises founded in Viet Nam have never contacts by Vietnamese domestic enterprises and they collect the information by word of mouth to look for business partners due to lack of well-prepared directory.

The information included in the directory will be statistically analyzed and fed back to each registered enterprise, with which they could understand their own position in comparison with other companies in terms of technical information and facilities. This analyzed data is also expected to be a helpful reference to the SMEs for their future improvements of technical capabilities.

It would also be advisable to make a statistical analysis of technical information and directory of owned facilities, and to feed the results back to the companies registered on the directory. This would enable them to learn of how their facilities and technology rank relative to those of other companies in the directory. Such information would serve as a valuable reference for future programs aiming at improvement of technical capabilities. The results would also make it possible to identify the technical problems saddling each company and effect corresponding improvement in the nature of the support offered by the SI technical promotion centers.

Table 7-10 The Directory Contents (Proposal)

Maj. Category	Items	Remarks
Company Profile	Name, Foundation date, Capital, Revenue, Number of employees, Products	Grasped by Many Directories. Lists in Viet Nam include these levels.
Facilities	Machinery (Lathe, Milling machine, Plating, Plastic forming, etc.) Number of machines Design facilities (Drafting board, 2D-CAD, 3D-CAD)	Almost no information in Viet Nam Usually described in the directories issued by Japan Industry Associations
Technological Level	ISO approval status Number of patents	(Ditto)
Special Skills (in case of Press Machine)	Press work (Blanking, Cutting, Bending, Drawing, Deep Drawing, Buckling, etc.) Press machines (Crank, Eccentric, Link, Hydraulic, Servo-motor, etc.) Materials (Mild steel, Aluminum, Copper, Stainless steel, Pre-coated materials, Painted steel plates, High tensile steel, etc.)	No Enterprise list including information of this level. Request for information must include detailed descriptions. The contents must be edited by technology category.

Source: JICA Study Team quoted from SI-High Way Pamphlet (by Nomura Research Institute. & Hiroshima Industry Development Corporation)

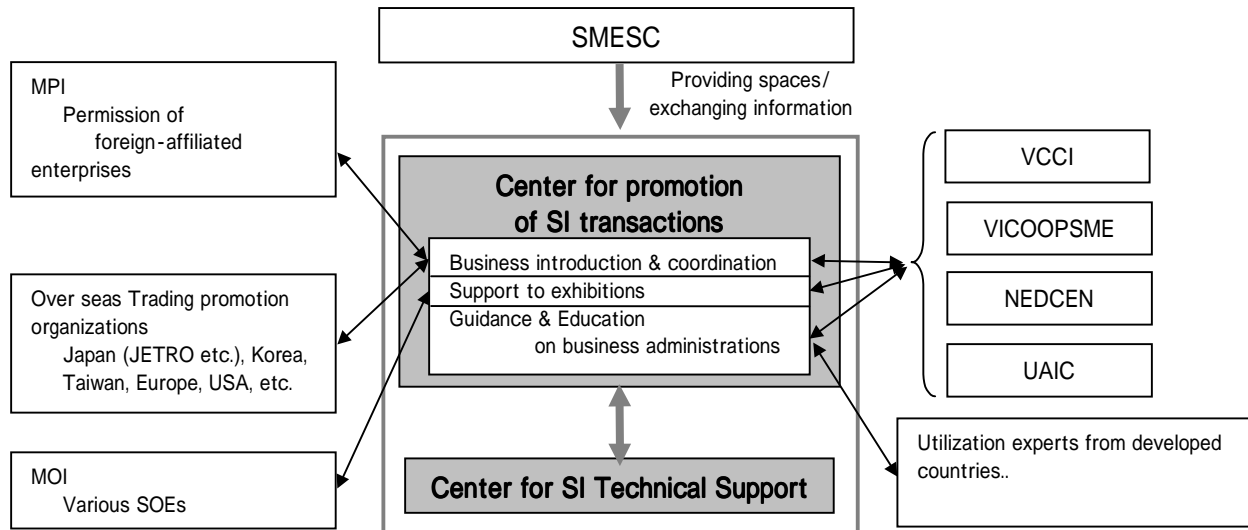
<Support to Trade Fairs>

The Center for Promotion of SI Transactions will conduct SI Promotion Trade Fairs and SI SMEs will exhibit their products and technologies. The center will help the SI SMEs have business chances, obtain new customers, and expand the business with the foreign-affiliated enterprises. The center will also bear some portion of the expense of exhibition spaces, support setting up the booths, and held symposiums. It is desirable that the center conducts the fairs having the supports from the domestic organizations such as VCCI, VICOOPSME, UAIC, etc., and the overseas trading promotion organizations like JETRO and others, and also supports the SI SMEs to join the overseas exhibitions.

<Guidance and Education of Business Management>

The center will not only give guidance and advice but also perform education and diagnosis of business management, accounting, and marketing. These services are provided now by VICOOPSME, NEDSEN, UAIC and other organizations, but the center will provide the services fully specialized for the SI SMEs with cooperation from domestic organizations on educational programs and dispatching instructors

Figure 7-4 Functions of Center for Promotion of SI Transactions and Cooperation with Other Organizations



Source: JICA Study Team

2) Proposal to Specific Plan for the Establishment

<Establishment Time>

Since, the foreign-affiliated enterprises are firstly targeted for instructions and coordination of the trades, the center will be opened in Hanoi and Ho Chi Minh city where many foreign-affiliated enterprises are located, then opened in other cities one by one. The establishment of the centers is expected to be beneficial to the foreign enterprises planning to enter the market. The centers can help them not only increase the local contents, but also activate business of the foreign affiliated firm in relation with domestic enterprises. Furthermore the centers will support to activate the trading among the domestic enterprises in keeping gradual business expansions with domestic manufacturers. It is desirable to prepare directory of the SMEs before establishment of the centers targeted in 2002, and by maximum utilization of the directories MPI and VCCI currently hold. The centers shall be located under the direct control of SMEPC, and expected to work with other existing organizations to the business extension.

<Other Additional Services>

Companies, which have received training or inspections by these services, should be offered benefits such as credit guarantee and SME financing. To this end, records should be kept of all past acts of assistance for companies. The center issues the certificate to them. These certificates are to be presented to the financial organization when companies receive any

type of financial aid. This will enable the inspecting institution to evaluate the company's credit from the business standpoint, and also serve as effective information on the occasion of inspection.

Table 7-11 Proposal of Construction Schedule of Center for Technical Support and Center for Promotion of SI Transactions

Centers	Descriptions	2000-2003	2004-2005	2006-2010	2011-2020
Center for Technical Support	Facilities preparation (Hanoi & Ho Chi Minh) (Core Cities) (Local Cities)	F/S, Design Completion	F/S, Design	Another Equipment (Phase 2), F/S, Design	Another Equipment
	Technical information	Collection of existing information of state enterprises	Collection of Overseas information (from foreign Authorities inland)	Analysis and modification of various information collected	Collection and analysis of information from other sources
	Contents of technological training (Major program only)	QC education	TQM, ISO related Programs	Design	Development
	Number of facilities	2 locations (Hanoi, Ho Chi Minh)	3 locations (Newly at Danang,..)	10 Locations (Local core cities)	20 locations
Center for Promotion of SI Transactions	Subject SMEs for DB preparation	SMEs in Hanoi and Ho Chi Minh	SMEs in core cities (Danang ,Haiphong, , etc.)	SMEs in other cities	(Collection of more data and updating)
	Partners	Mainly foreign affiliated firms	(sama as left)	Foreign-affiliated enterprises, SOEs, Foreign-affiliated enterprises in ASEAN	(sama as left)
	Location of exhibition		Domestic exhibition	Domestic and overseas exhibitions	(sama as left)
	Market information to be collected	Existing information at state enterprises	Overseas information (from foreign Organizations in Viet Nam)	Analysis and modification of various information	Collection and analysis of information from other sources
	Number of locations	2 locations (Hanoi, Ho Chi Minh)	3 locations (Newly at Danang,..)	10 Locations (Local core cities)	20 locations

Source: JICA Study Team

8. HUMAN RESOURCES DEVELOPMENT

8. Human Resources Development

8.1 Current Situation

As known by its high literacy rate at 88% to total labor force, Viet Nam's general educational standard as a whole stays at relatively high for a developing country. Universities and colleges are numbering more than 100. However, the country's education is not sufficiently satisfying the demand for professional education from industries and corporations in such areas as managerial administration and vocational education. On the part of industries and companies, an important task is how to turn people's latent capability to actual workforce.

In Viet Nam, long-term general education is managed by the MOET and its long-term vocational training by MOLISA. Furthermore, the Ministry of Industry (MOI) and each of the governmental institutions has their own schools or studying and training facilities which provide education with relatively high quality in Viet Nam. Additionally, women's unions, youth clubs and military clubs operate their own training facilities in major cities and provinces. Each of government ministries is providing various educational services for the members and non-members. Other than these educational facilities, NGOs and universities are providing short-term education.

Here, general situation in the area of 1) education for the management and the administrator and 2) technology and technical education, from the view point of promotion of medium and small enterprises is described. Major issues to be addressed in technology and technical education as well as the measures to deal with these issues will be discussed in the clause of Technology and SI Promotion.

8.1.1 Education for the Management and the Administrator

Even though the necessity to educate the management and administrator is acutely recognized by the administrative authorities, systematic education targeting for a market economy is not sufficient. In particular, the country is in the transitional period from planned economy to market economy, so it is in short of experience in modern market economy. Because of shortcoming in capability on the part of the education provider, education for the management and the administrator tends to concentrate on theoretical one, instead of more practical education enabling them to resolve problems. Overseas financial assistance and foreign experts assistance have been often utilized in those practical education and training

programs addressing to problems of environment, quality and standardization, as well as intellectual property right.

The number of graduates with MBA degree as a typical long-term education for administrator is estimated to 1000 a year, including those acquired the degree overseas. In particular, those studied overseas and those overseas Vietnamese received advanced education prefer to get a job opportunity at joint venture companies. However, of late, there is a phenomenon that some of them are willing to start their own business. Since the current situation is in the transitional period to market economy, it is started to be recognized that education for modern managerial administrator is necessary for the corporate management and their employees. These educations are given as follows:

Education for the management or the administrator is centering on short-term courses, from one week to three months, with some exception of longer than three months.

This type of education is provided by the training institutions, operated by each of government ministries, and training facilities in different kinds, operated by NGOs or provinces, universities and colleges. As a whole, education for people those who fit themselves to new market economy system has been offered actively since after the introduction of the "doi moi" policy.

At the training institutes for the administrators, operated by each of government agencies, people are learning management skills and new management technique, corresponding to the market economy. Before the introduction of the "doi moi" policy, these education at the training institutes had played a significantly larger role for the education of workers at the state-owned companies. After the introduction of the "doi moi" policy, particularly during the period of the reform of state-owned companies, each of the companies has been requested to operate rather independently in market economy. Some have begun to recruit new graduates from different educational level, and some have begun to carry out long-term vocational education including education for managerial administration.

In addition to long-term education at universities and colleges through full-time, or part-time or distant education, emphasis has recently been placed on short-term management courses. The central programs are provided by such leading universities as Hanoi Economic University, Hanoi University of Technology, Ho Chi Minh City Economic University, Ho Chi Minh City University of Technology. By types of attendants to management courses, those from state-owned companies or joint venture companies are accounting for more than 70% of total participants. This is due to the issues of economic burden and time constraints to participate in the programs. Accurate data on participants, however, is not acquired by even those hosting organizations.

Education for non-state corporations has chiefly been provided by non-governmental organizations, including those leading organizations as NEDCEN under the wing of

VICOOPSME, and SME-PC affiliated with VCCI, and YOUTH-CENTER run by a youth organization and Women-Center run by a women's organization with participants of 12 million. Generally, VCCI and other organizations are not confining their target of services to non-state workers.

However, very small portion of these educational lectures has focused on management of SMEs and operated on an irregular basis only when there has been financial assistance from foreign countries. Because of impediment in recruitment of instructors and trainers and shortcoming in budget to hold seminars, it is rare to find educational courses on SME management on a regular basis. Instructors hired for these courses vary widely. First, educational lectures are using foreign teaching materials and foreign instructors, many of which have been carried out by some extent with induction of financial support from overseas organizations. Secondly, some educational lectures are carried out by domestic instructors, or a combination of foreign and domestic instructors. Among them, those educational courses centering on SMEs with promotion of private enterprises in scope are as follows.

VICOOPSME Training System

VICOOPSME has the Training Center for Management of the non-state Enterprises in Hanoi as well as a comprehensive management organization called NEDCEN: Non-State Economic Development Center. Besides, VICOOPSME keeps about 300 staffs at 42 Provincial Promotion Center, providing services of training and consulting, and has a vocational education facilities at four locations: Haiphong, Thann-Hoa, Da Nang, and Can Tho. NEDCEN has operated training courses which accumulated 81 in number and it educated 3000 people in 1998 in 11 training courses. About a third of attendants were governmental staff members including those from local people's committees and communist members, with remainings from non-state companies. Most of them took short-term training courses of several months. Major subjects of studies were as follows:

- * Basic way of thinking on managerial administration of cooperatives and SMEs
- * Management skills
- * Management skills related to finance and overseas trade
- * Education for entrepreneurs

VCCI (Viet Nam Chamber of Commerce and Industry) SME Promotion Center

SME Promotion Center of VCCI is operating its own training and consulting programs in nine locations including Hanoi. Training programs sponsored by VCCI are often carried out jointly with overseas organizations and overseas projects. Theme of lectures vary time to

time, relating to overseas assistance and users' demand, with an example of garment design, introduction of VAT system, cost accounting, environmental measures, etc. Same as VICOOPSME, VCCI sets up a consulting desk where 17 staffs are engaged in consulting service. For those problems that can not be resolved by in-house staffs, the center invites consultants from outside. A series of training courses and advisory services in the field of accounting and finance are conducted by Financial Department of VCCI. SME Promotion Center is aiming to establish an organizational structure by increasing advisors to about 200 within a couple of years, and the center's quantitative expansion is expected to enable 80% of nation's SMEs to gain an access to one of the VCCI SME Promotion Centers within several hours.

Viet Nam Women's Union

As a measure to assist SMEs, Viet Nam Women's Union provides specific programs such as arranging business missions for entrepreneurs including overseas study tours, and opening lectures for female entrepreneurs, with occasional induction of overseas assistance. This union, as a central organization, organizes nation-wide movement to organize a women executive club and has so far helped to form more than 10 clubs and held meetings to study on the subject of new management and new market, as well as meetings for knowledge and information exchange.

STAMEQ (Directorate for Standards and Quality) an organization in the wing of MOSTE

As education for managerial administrator in the field of technology, STAMEQ operates education and training program for productivity improvement, quality control and standardization with ISO9000 as a center of its movement. As for services focusing on SMEs, Training Center as a core of the study and training division of STAMEQ, as well as Small and Medium Enterprises Development Support Center (SMEDEC) under mutual cooperation with the STAMEQ's Viet Nam Productivity Center, have been providing technology-related support for corporations

8.1.2 Technology and Vocational Education

The number of long-term training institutions related with technical and vocational training in Viet Nam are numbering 740 as of 1998. These are Secondary Vocational Schools and Craft Teaching Schools.

Technology and technical education is provided, dividing workers into three groups of technical level: Workers, Secondary workers and Engineers.

Workers are mainly those graduates from junior high school who receive two-year education at Craft Teaching School. Workers are rated in seven grades by MOLISA. The number of students trying to enter Craft Teaching School continues to decline with the number of entrants dropping from 70,000 in late 1980s to 30,000 in recent years. Craft Teaching Schools are numbering about 170, of which only 70 schools provide educational program related to engineering technology.

Secondary workers are those graduates from high school who received education at Secondary Vocational School. They are rated as a person who is able to perform as a site manager or to engage in quality control, together with workers rated at the seventh grade. At present, there are 250 Secondary Vocational Schools, of which about 100 schools are operated by relating government agencies, with remaining 150 schools, operated by the local people's committees.

Out of 250 Secondary Vocational Schools, those schools which are engaged in technical training relating to manufacturing are only 40. Comparing with education at Worker level, the number of entrants to Secondary Vocational School has shown a marginal increase, staying at around 50,000 a year. The table in the next page indicates the change in growth of students of the Secondary Vocational School and the Craft Teaching School.

Table 8-1 Number of Students at Secondary Vocational School and Craft Teaching School

School year	Secondary Vocational School		Craft Teaching School	
	Total number of students	Total number of newly recruited	Total number of students	Total number of newly recruited
1986-87	52,984	47,198	119,783	52,854
1987-88	57,799	48,855	102,043	56,956
1988-89	55,277	39,220	118,083	70,055
1989-90	53,245	37,763	92,485	74,504
1990-91	51,194	41,111	105,083	71,388
1991-92	54,682	40,538	77,395	29,841
1992-93	49,474	37,575	78,956	35,893
1993-94	46,417	33,570	46,498	23,882
1994-95	66,685	44,435	62,614	34,000
1995-96	69,057	48,938	79,488	24,087

Source: Pham Minh Hac " Viet Nam's Education - The current position and Future prospects."

(The Gioi Publications 1998)

Meanwhile engineers are those graduates from universities, and are able to engage in development and research works. Out of 60 universities, those universities which hold engineering courses are only 11, including three comprehensive universities such as Hanoi, Ho Chi Minh and eight engineering universities. In addition to long-term education mentioned above, there are short-term educational and vocational institutions including those institutions directly operated by MOLISA, and technical centers established by women's union and farmers' union. With addition of private-run technical centers of several hundreds, the total number of training centers is exceeding well over 1,000 nationwide. However, it is rare to find training centers placing focus on engineering. The levels of these training centers are not rated high by the management of corporations including SMEs. Under these circumstances, as indicated by the data from ADB's survey below, technology-related skilled workers have been in short supply and this situation will continue in future.

Table 8-2 Projection of Demand and Supply Gap of Technical Workers

(unit: 10,000)

	1998	2000	2003
Demand for technical workers	663	765	998
Demand for supply of technical workers	394	428	479
Shortage of technical workers	269	337	519

Source: based on the result of survey of ADB's TA No.2671-VIE :Technical Education Project

Non-state SMEs tend to consider it impossible to recruit highly skilled workers because of their poor terms of job offering. Also they are not counting much on graduates from vocational schools under the current educational level. They are inclining to give education through on-the-job training for high-school graduates who received general education.

8.2 Issues to be Addressed

Education in Viet Nam, as adopted by the policy of "Continuation of reform movement of education and training" at the 1993 Communist Party Central Committee Assembly, is widely conceived as a comprehensive subject related to education and training. As compared with other Asian countries, Viet Nam's education is not sufficient and blaming on the problem of shorter school hours at elementary school and junior high school as well as low percentage of students advancing to education at high schools and universities, remaining at 41% and 3%, respectively. All the surveys conducted on Viet Nam's social system and investment environment, by international institutions and overseas research institutions, equally pointed out an educational issue as a source of various problems the country is facing, and also the necessity of educational reform in any stage and any field of industries.

Table 8-3 The Rate of Teachers' Achievement of Educational Standard

	Elementary school	Junior high school	High School	Vocational school	Technical school
Rate of Achievement (%)	70.72	83.88	93.31	51.8	78.7

Source: MOET Information Center on Education Management(1996)

Table 8-4 Labor Demand Forecast in Viet Nam (an estimate based on 1997 survey)

	1998		2000		2003	
	million	%	million	%	Million	%
Total labor demand	37.8		40.2		43.9	
(1) Agriculture	24.6	65	24.9	62	24.0	55
(2) Non-Agriculture	13.2	35	15.3	38	19.9	45
Out of Non-agriculture labor						
(1)University graduates	2.65	7.0	3.06	7.6	3.99	9.1
(2)Technical worker	6.63	17.5	7.65	19.0	9.98	22.7
(3)non-technical worker	3.98	10.5	4.58	11.4	5.99	13.6

Source: According to the survey results of ADB's TA NO. 2671-VIE: Technical Education Project

Especially, from industry's point of view, problem remains quantitatively and qualitatively. For flexible approach to market economy in competitive international society, educational emphasis should be placed more on problem-resolving, creative technology to develop new technology and new managerial approach, comparing to the conventional education which places a prime importance on mathematics, science and language.

In the transitional phase from planned economy to market economy, non-state companies have not been sufficiently meshed into industrial structure of the country. This causes few management who virtually experienced in corporate management under market economy and few being able to be an instructors in management education and training. For example, garment industry needs a qualitative reform in education centering on introduction and conversion to new managerial technology as a basic technology for modern business management. It requires to understand and master contemporary systems like QR (quick response) system as a standardized system in global supply chain, and quantitative measures to supply technology sufficiently. From the viewpoint of vocational training centering on technology, there are relatively large physical spaces for training. However, further expansion in quantity and improvement in quality will become all the more important. For achieving quantitative expansion in technical training, the current trend in Viet Nam of "not taking science and engineering course in school", is posing a serious problem.

In the Sixth Five-year Plan(1996-2000), the long-term economic plan to the year 2010, drawn up by the current MPI, points out the problem concerning vocational training as follows:

- Professional workforce, required in the process of industrialization, should be raised from 11% of total workforce (as projected in 1995) to 18-20% by the year 2010.
- In 5 -10 years time, top priority should be given to those schools constituting a core of the plan, and to enhance them financially and quantitatively. Thus improvement of quality of education should be achieved by aiming at international standard.
- The level of teachers should be raised. In concrete, eligible teachers at high school as well as secondary vocational school are those received education at high school, and 3-5% of teachers at high school should be graduated from graduate schools.
- Vocational training should be carried out by close examination of the purpose, curriculum, content and method, based on the demand for human resources. Short-term training should be put into operation.

It can not be confirmed that the plan has made a big progress. A major change occurred after the stage of formulation of the long-term plan was that vocational training division, which had been general department in the prime minister office, was once belonged to the MOET, has transferred to MOLISA as its general department in 1999 to reinforce vocational training. Concrete policy is not clear at this point, but it is true that the problem has been widely recognized by the government's ministries.

However, from the viewpoint of promoting SMEs' training issues, problem can not simply be resolved by sufficient supply of education on the part of suppliers. Not small problems remain on the part of seeking vocational training (corporation). In other words, the environment is not ready for the recipient side to attend training courses. Even though the management of the company and his family are aware of the necessity of education, they are not so active to provide employees with managerial education. They often cite problems of: 1) education cost and 2) treatment of the employees after the training program. However, some successful managers of corporations, which have achieved relatively high earning growth, are emphasizing the importance of education, along with continuous investment for the induction of new technology.

Capability to shoulder Education Cost (expenses and time)

Expenses to attend seminars or training courses stay mostly in the range of 50,000 VND (Viet Nam dong) to 100,000 VND a day. Given each worker's monthly salary ranging between 500,000 VND to 1,000,000 VND, opportunity loss resulting from sending workers to training courses are imposing fairly significant burden on SMEs, according to many management. Therefore, in stead of just collecting expenses from the SMEs which send their employees to educational classes or vocational training, new approach to give rewards or voucher systems for these companies sending staffs to training should be considered as a

positive way to boost the number of attendees. There is a case that vocational training program sponsored by an international organization pays about 50,000 VND a day. In many cases, attendants of workshops are paid 50,000VND to 100,000VND for expenses. Among companies, visited by JICA Study Team during this study, an attitude common to most of successful companies is that they are placing a vital importance on continuous investment for new technology and investment in education.

Typical cost to attend seminars at Hanoi University of Technology and Ho Chi Minh City University of Technology are shown in the table.

Table 8-5 Sample Cost to Attend Seminar of Managerial Administration Course
(unit: 1,000VND)

Course	Hanoi	Ho Chi Minh
Business Planning	250	350
Cost Accounting	200	250
Sewing Design	250	300

Source: JICA Study Team

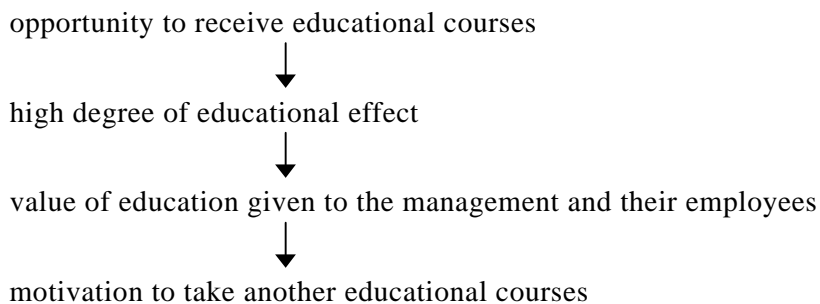
Treatment of trainees (change of vocations after receiving training)

On the other hand, there are some management who fear that their employees could be recruited by other companies after finishing training courses, or position of management could be threatened by those who received higher education of managerial administration. Therefore companies are rather active to send sending their employees to the courses of technology related vocational training which could have more tangible results and would have little possibility of threatening the management position after they received training. Thus companies are less enthusiastic to dispatch their workers to educational courses for the management and the administrators.

With these factors as a background, attendees to various education programs for the management and administrator, and vocational training program, are mostly from state-owned companies, who account for 60-80% of total attendees, with less participants from non-state SMEs. Aiming to educate and foster business management of non-state companies, including management modernization of cooperatives, NEDCEN was established in 1992 which has provided educational training for managerial administration to the extent of 3,000 persons a year.

Background of this inactiveness to participate in training programs is that, on one part high quality program is almost non-existent, and on another part is that the effectiveness of the education and training is not clear beforehand especially at the first experience. Educational and training activities are not firmly rooted in SMEs in Viet Nam.

Judging from these circumstances, the biggest subject for the education of managerial administrator and technical and skill training is how to create a flow as depicted below, by providing education and training in high quality as a base for education and training of medium and small enterprises.



According to managers of educational institutions related to SMEs, university graduates accounted for 20% of the total number of management of non-state SMEs, with 70% estimated to be graduates from junior high school or high school. This indicates latent demand for higher education and training, not only for the purpose of improvement of absolute educational level of the country, but also for the necessity to adjust education to a transitional period to new market economy.

Followings are the major issues in human resource development in SME business world, especially focusing on business management, for which political measures are desired to be developed. Technical and vocational skill training is described in the chapter of Technology and SI Promotion.

- From the viewpoint of education of Viet Nam's medium and small enterprises and vocational training, problems such as the absence of concrete analysis on demand and supply outlook, absence of human resources development program, absence of cooperation among related institutions and absence of policy to integrate supportive measures should be resolved
- Judging from a considerable number of SMEs including the number of households business as latent corporations, there are strong needs for education. It is necessary to grasp comprehensively the real situation of latent demand including those demands for education in quality and quantity, and it should be reflected on human resources development program.
- There have been few instances that people in educational circle to discuss the meaning of advanced technology, which is vital to the market economy and international competition.

Production technology and training of highly skilled workers have not been given major attention.

- The management of SMEs is different from those of state companies or large enterprises. Thus they are requested to have understanding of the whole business affairs such as finance, production, sales and personnel affairs, as well as those practical side of business. It is necessary to train instructors of business management, nurturing management in different paradigm of the market economy, as well as surging waves of international competition hitting Viet Nam.
- Teachers, trainers and instructors on site are lacking in quality and quantity. These instructors also need reeducation.
- Recognition of the need to train educators for development of human resources for SMEs and to develop software such as education package or teaching method should be integrated to develop comprehensive educational program.
- Supply of educational program, particularly the program prerequisite for the business management under the market economy, is confined to such big cities like Hanoi and Ho Chi Minh City, due to the problem of supplying capability. Also time zones to offer educational training lack flexibility, in view of limited availability of free time of employees of SMEs. Thus improvement is required in terms of supplying capability and flexibility.
- Improvement of educational facilities in quality is required. This should be particularly emphasized in the field of technology and skill training. At the same time, improvement has to be made in education of information technology as a basic skill required for education of the administrator, and information system which will make education itself as effective tool.

Also some device will be required to provide incentive to SMEs to participate positively in education and training programs

- Lessening cost burden for SMEs
- Development of mechanism to induce SMEs to take part in educational and training programs.
- Enlightenment of the beneficial effect from attending educational courses for managerial administrator.

Education for the management and the administrator is different from technical and skill training, thus it is difficult to show in advance direct beneficial effect from educational program that would otherwise provide an opportunity for these companies to take the first educational program. As a process to expand attendees to educational lectures, attendees

have to recognize the benefits by applying management technology to their real business. These types of recognition could spread to other people, though it is time-consuming process to make the recognition wide spread.

8.3 Policy Measures Related to Human Resources Development

8.3.1 Formulating a Human Resources Development Program for Medium and Small Enterprises

Under market economy system, it is necessary to formulate a comprehensive program which includes various reform plans such as fostering specialists for education and training, improvement of educational facilities and equipment and their prevailing program. It should be formulated encompassing the viewpoint of developing human resources for SMEs through education of managerial administrators and training of skilled workers. This view point is not necessary to dedicate to the measures for SMEs. MOET and MOLISA, however, are not close enough to capture the needs for education for SMEs which call for the knowledge and experiences in 1) management science, 2) finance, 3) production and quality management, 4) advanced technology, etc. These needs have to be dealt by the Small and Medium Enterprise Promotion Agency, which works very close to the real site of SMEs. Thus the agency has to take an initiative to draw up the needs as a part of their planning business. Otherwise no other institutions are able to do this in details.

8.3.2 Education Program for Public Officers in Charge of SME Promotion

It is prerequisite for staffs working at the counter of government agencies in charge of SMEs as well as local people's committees to have familiarity with SMEs. By accepting any kind of questions and consultation needs, the government will be able to locate the problems held by SMEs, which will be reflected on their policy formulation. The conventional attitude of public officers was placing private companies under their strict control. Public officers now have to transform their attitude to that of supporting companies. Additionally public officers are requested as a matter of course to have enough knowledge and expertise related to management of SMEs. However, the knowledge and expertise are not constant as they are changing with the development of economic conditions within the company and surrounding economy, which force public officers to engage in continuous study. It is desirable that this program is to be put into practice by such institution like NEDCEN which has a character of

working very close to non-state companies and also practiced the educational programs for governmental workers.

The purpose of this education is to give a basic seminar to public officer in an effort to enhance their understanding of SMEs. More concretely,

- 1) Basic education to public officers on SME business environment, governmental policies and supportive measures.
- 2) Operation training for service providers at one stop advisory desks to be introduced

8.3.3 Establishment of Corporate Diagnosis and Advisory Service

The objective of corporate diagnosis and advisory service is to improve SMEs management practice. By providing a corporate diagnosis and advice by designated experts, the attainment of improvement in the form of 1) advanced practice of business management, 2) exploration of new business opportunities, and 3) financial assistance is expected. The result will stimulate management capacity enhancement cycle to continue through performance. The fruits of this efforts lead to introduction of a basic administration system for SMEs and promotion of advanced production control, which forced SMEs to recognize the benefit of these efforts.

During the visits to SMEs by JICA Study Team, several experts in factory management observed that simple effort of cleaning and tidying up of the factory, inventory control and change of layout of the factory could help improve their performance. Severe international business environment is looming over Viet Nam, and the corporate management in Viet Nam is lagging behind in terms of administration and technology under the structural inertia created under the planned economy in the past. Thus, the introduction of the program of corporate diagnosis and guidance is recommended. The program in this kind of form has already been in operation by MPDF with about 50 staffs. Experiences accumulated through the activities will be an important asset for Viet Nam.

This project consists of three programs, 1) to foster experts to engage in the service, 2) to run a corporate diagnosis and advisory services, 3) to promote the program. Sponsoring body of this project is the SMEPA, as the organization which actually put the programs into practice. For a medium term, however, it is desirable for wide and active use of advisers of those NGOs such as VCCI and VICOOPSME .

- To foster experts who will give a corporate diagnosis and advice

Organizations including NEDCEN, and SMEDEC and Training Center under the wing of STAMEQ belonging to MOSTEC, and advisory service of VCCI will be the basis for the

specialists to conduct corporate diagnosis and advice. NEDCEN which has a potential to deploy the project nationwide, is acting very close to SMEs including those in local areas. STAMEQ has experience in production control including quality control and standardization as well as production technology, and practical experience of product inspection. VCCI is well versed in management technology such as marketing under market economy. It is recommended that, above three organizations will construct the basis to foster experts to diagnose company management, bringing up the number of experts to 200 over 2 years starting from the year 2000

Generally, there should be several kinds of experts to conduct corporate diagnosis and advisory service. It is expected to produce many diagnostic experts in the special field covered by organizations including above three. For example, NEDCEN specializes in management in general, STAMEQ specializes in manufacturing industry, VCCI has special strength in distribution and commerce. The diagnosis and business division of SMEPA will supervise the project to bring up diagnostic experts. Instructors are expected to engage in not only education and training, but also to develop diagnostic package, diagnostic tool, as well as database which is used for performance reference and standards.

- Diagnosis and advisory activities

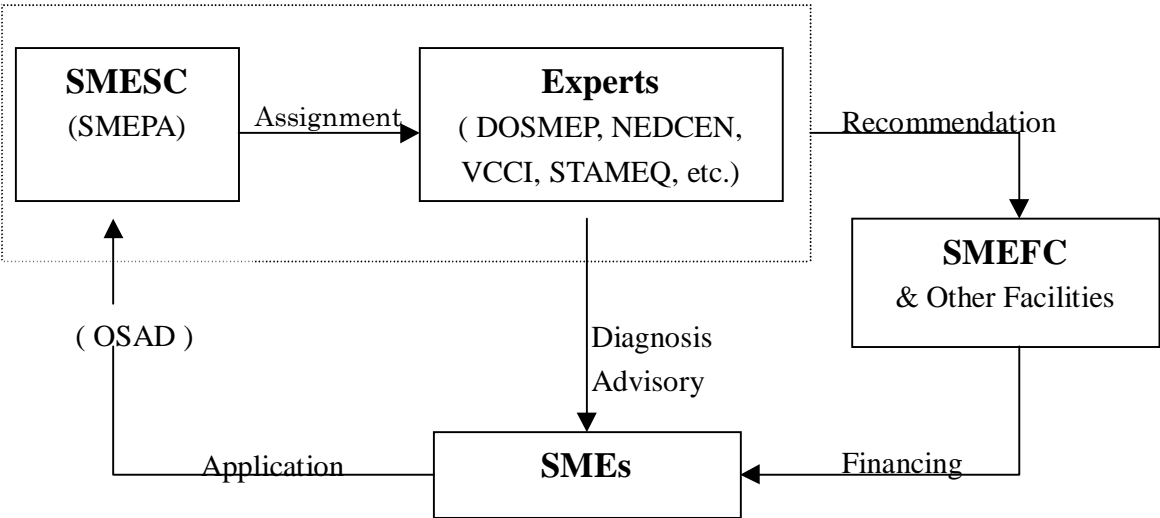
At the start, diagnosis and advisory division is to be established within SMEPA, to which related institutions will dispatch staffs, and will start an experiment of corporate diagnosis and advisory activities, in tandem with training of the experts for the service. As for a full-fledged start of the project, NEDCEN and other institutions mentioned above will engage in this activities simultaneously. As a stream of business, organizations and experts to carry out services will be introduced by SMEPA by way of DOSMEP organization to be set up within local people's committee. After nationwide deployment of the project from and after the year 2005 as a target, candidate corporations from local people's committee will be able to select local branch of serving institutions. However, candidate corporations in Hanoi and Ho Chi Minh City will be introduced by SMESC, and then directly introduced to the related institutions right from the beginning of the project.

- Measures to promote corporate diagnosis and advisory activities

The purpose of diagnosis and advisory service is of course to improve management of individual company and achievement of advanced business management. In addition, it explores the companies with latent growth potential and actually helps them realize their hidden growth potential. Through this activity, the merit by challenging to management reform will be fully appreciated by SMEs and activities to make effort for management improvement is expected to spread widely. Corporate diagnosis and advisory program is also

imposing a burden on the part of companies who are to be diagnosed because they will be requested to disclose their business data. To make the diagnosis and advice project as a start of upward spiral, a coordination with SME Finance Corporation as mentioned in Financial Systems Section of this report, and the very fact that the company was diagnosed and received advice should be used as a reference for creditworthiness evaluation for policy finance. This program is another key, besides credit guarantee system, to build basis for smoother financing by the enhancement of SMEs capacity. Aiming at introducing this system in the year of 2002, early start of preparation is recommended.

Figure 8-1 Diagnosis and Advisory Service Execution and SMEFC



Source: JICA Study Team

8.3.4 Program to Foster the Management and the Administrator of SMEs

Along with the project of corporate diagnosis and guidance, management seminars should be held on a regular basis for the management of SMEs..

Here, management seminars are targeting presidents or executives of SMEs, and seminars are given on regular subjects about corporate management in general, finance and accounting, production and quality control. Management instructors as a lecturer for management seminar should also get training, along with training of specialist for diagnosis and advisory. To make this project broader, it is desirable to supply educational vouchers to the management of SMEs. Regarding a voucher system, the program should be put forward by considering the limited number of educational and training facilities as well as preferential treatment in each region.

Regarding various systems and programs proposed here, preparation work will have to be started simultaneously with establishment of SMEPA. And the program will have to be carried out with quantitative expansion in scope as projected below.

Table 8-6 SME Related Human Resources Development Plan

	2001	2005	2010
Cumulative number of qualified diagnosis and advisory experts	200	1,000	2,000
Number of public officers who received basic education on SMEs management and public policies	1,000	2,500	5,000
Number of officers working at one.stop advisory desk	200	650	1,000
Management instructors	200	400	1,000
Corporate management and administrators education (annual participants)	2,000	4,000	10,000
Assumed number of SMEs (manufacturing)	10,000	20,000	50,000

Source: JICA Study Team

Notes: MPDF's business supporting activity

MPDF keeps a group of 50 specialists who support non.state SMEs in Hanoi and Ho Chi Minh City. By dispatching two experts as a unit to the company in need of help, they are making a diagnosis of management and supporting the company to come up with a business plan. As for the fund procurement necessary for the project, they are making recommendations to various types of financial institutions and mapping out financing program.

Supports provided by MPDF for the objective companies are as follows: 1) giving support to conduct a feasibility study and a market research, 2) evaluating business operations and

financial condition of the objective company, and proposing a reform plan, 3) evaluating management structure, business information system, legal affairs, business control system to make business healthier, and advising business reform 4) giving an advise on introduction of new technology and supplying sources of technology, 5) supporting the company to draw up a new business plan, 6) supporting the objective company to procure necessary amount of fund, 7) other supporting activities such as training or giving assistance which is required by SMEs.