

# SMALL AND MEDIUM ENTERPRISE ACTIVITIES AND FINANCING IN VIETNAM

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- 1. SMEs' operation and contributions**
- 2. Constraints to SME development**
- 3. Challenges to SME supporting policies**
- 4. Solutions**

# 1. SMEs' Operation and Contribution (1)

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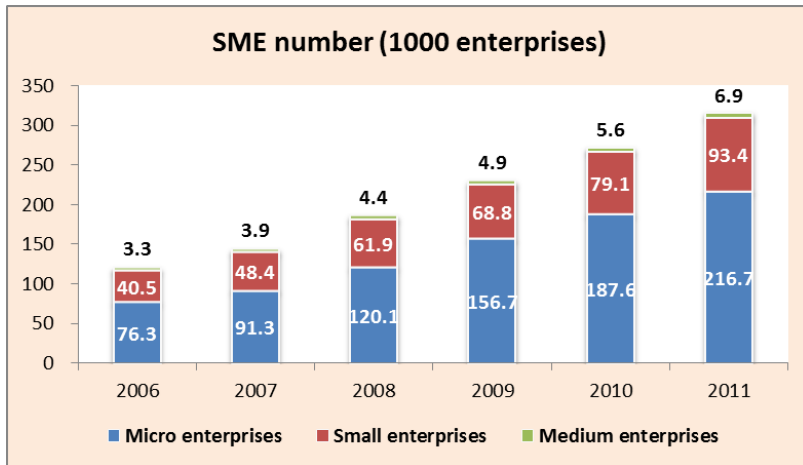
Regulatory definition of SMEs is more detailed.

- 2001-2009: SMEs = Registered capital  $\leq$  VND 10 bil. Or Averaged labours  $\leq$  300 persons
- Since 2009: SMEs are classified into three groups: micro, small, and medium.

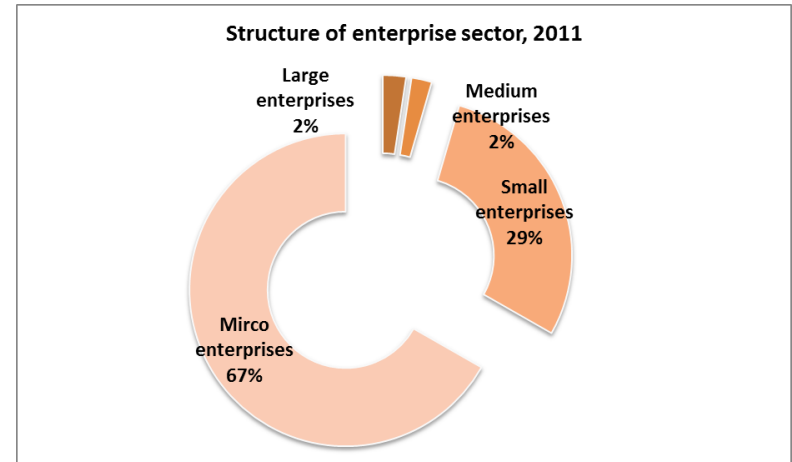
	Micro En.	Small Enterprises		Medium Enterprises	
	Labours (persons)	Capital (VND bil.)	Labours (persons)	Capital (VND bil.)	Labours (persons)
Trading and services	(... 10]	(... 10]	(10 ... 50]	(10 ... 50]	(50 ... 100]
Others	(... 10]	(... 20]	(10 ... 200]	(20 ... 100]	(200 ... 300]

# 1. SMEs' Operation and Contribution (2)

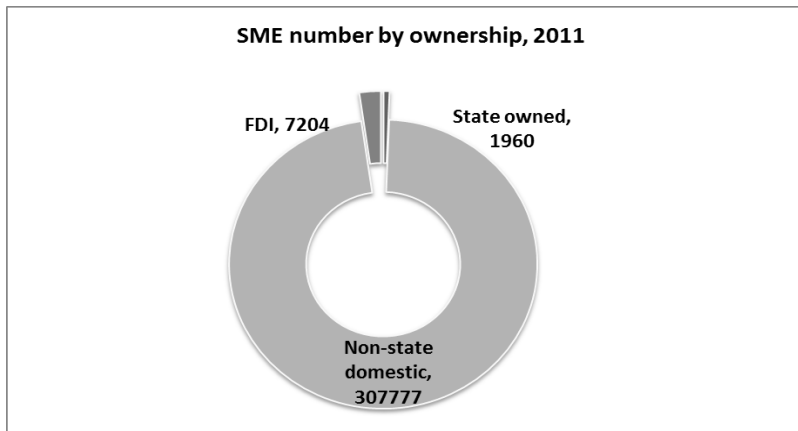
## Rapid increase in SMEs number



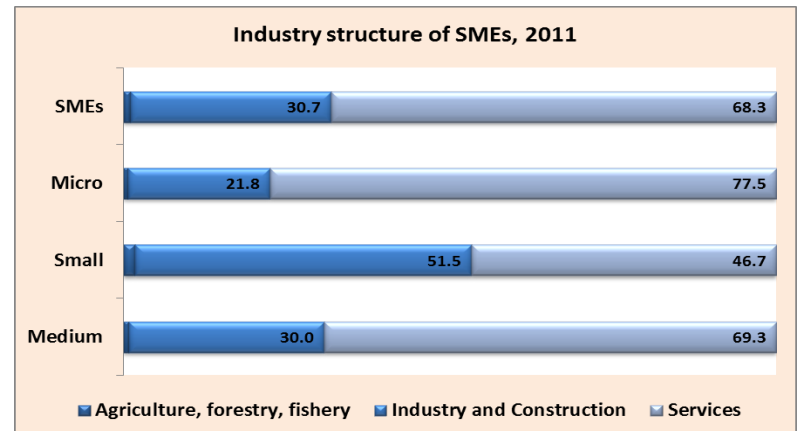
## Mainly micro and small scales



## Almost domestic private enterprises

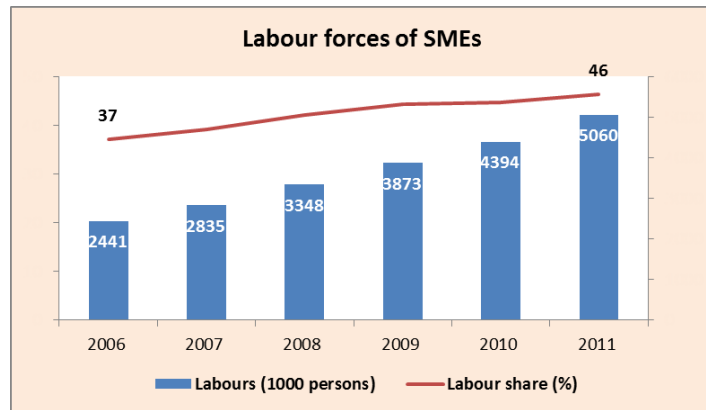


## Focus on service activities

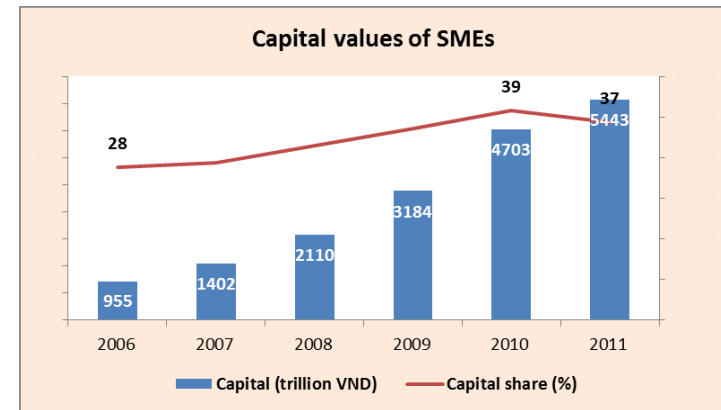


# 1. SMEs' Operation and Contribution (3)

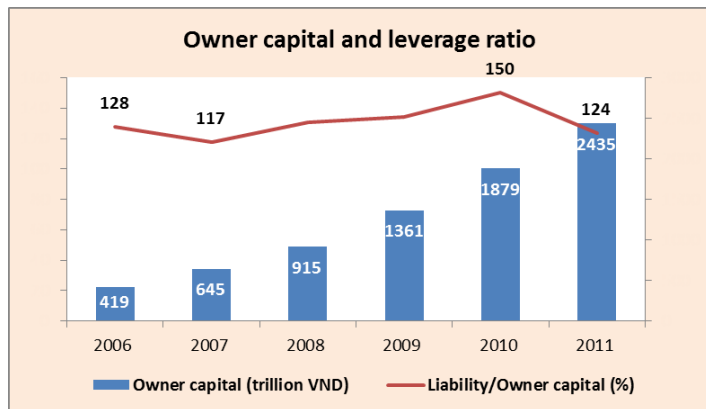
Labour forces increased more than 2 times



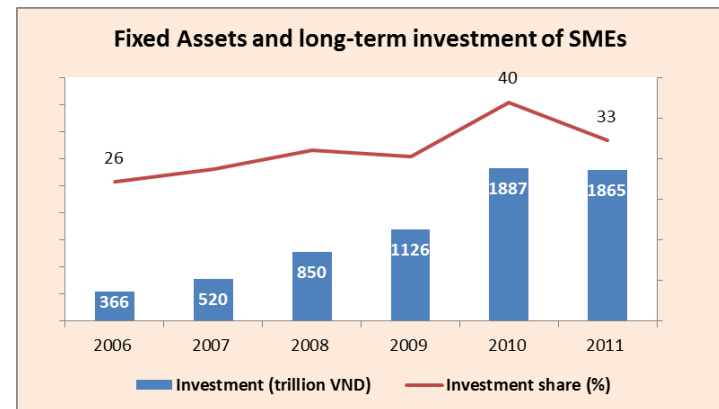
Capital increased nearly 6 times



Owner capital increased nearly 6 times

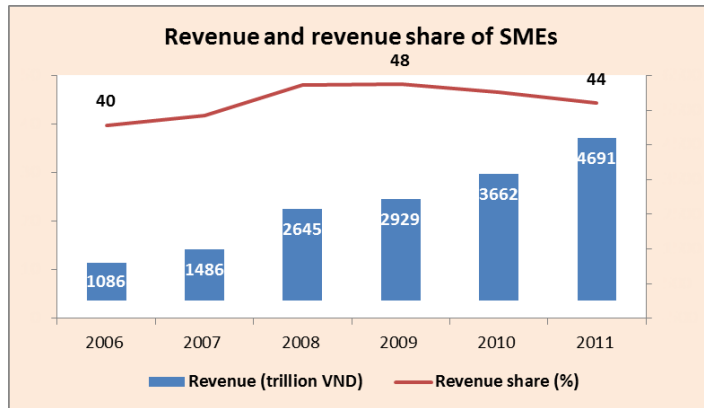


Investment increased more than 5 times

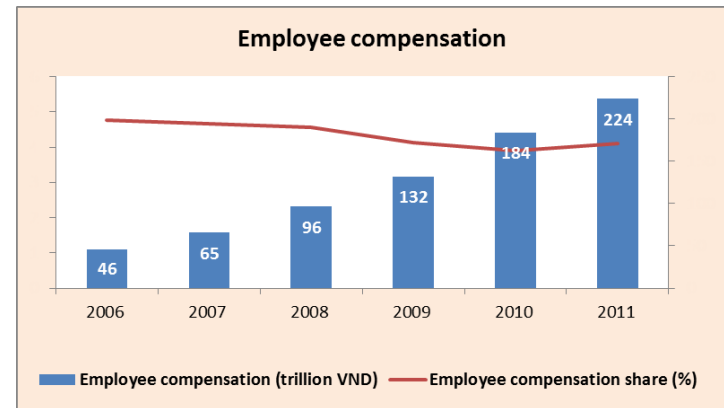


# 1. SMEs' Operation and Contribution (4)

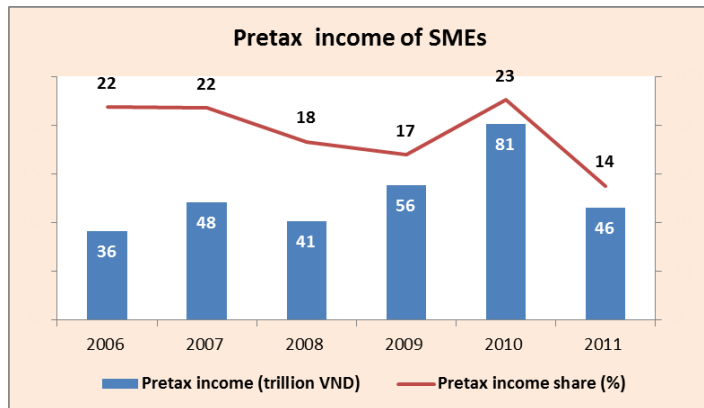
Revenues increased more than 3 times



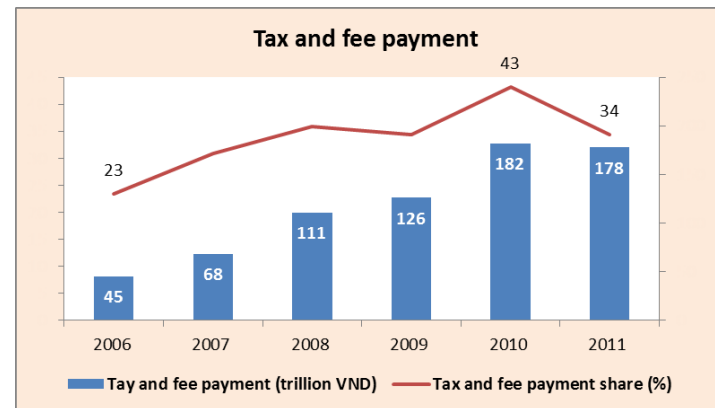
Employee compensation increased nearly 5 times



Pretax increased more than 2 times in 2010



Tax, fee payment increased nearly 4 times



# 1. SMEs' Operation and Contribution (5)

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SMEs development targets for the 2011-2015 period:

- |    |   |              |
|----|---|--------------|
| 1. | Number of newly established SMEs :            | 450 thousand |
| 2. | Number of new jobs:                           | 4 million    |
| 3. | Share of SMEs in export:                      | 10-12%       |
| 4. | Share of SMEs in total investment:            | 40%          |
| 5. | Share of SMEs in GDP:                         | 30%          |
| 6. | Share of SMEs in total state budget revenues: | 35%          |

## 2. Constraints to SME development (1)

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Many typical constraints are early identified, gradually reduced but remain persistent and considered as current challenges.

### Finance

- Limited access to financial resources.
- High interest rate costs.

### Premises

- Difficulties to access the production premises.
- High costs of land site clearance.

### Labors

- Unskilled, unqualified labor force; low wage and unattractive to skilled labors.
- Managers are not well trained in business administration.

### Technology

- Out-of-date production technology;
- Low productivities, high production costs, and low competitiveness.

### Market

- Hard to access the export markets.

### Information

- Shortage of information on markets, incentive policies.

### Regulation

- Administrative burdens, high compliance cost.



## 2. Constraints to SME development (2)

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Shortage of capital is one of the most obstacles to SME development.

### Bank side

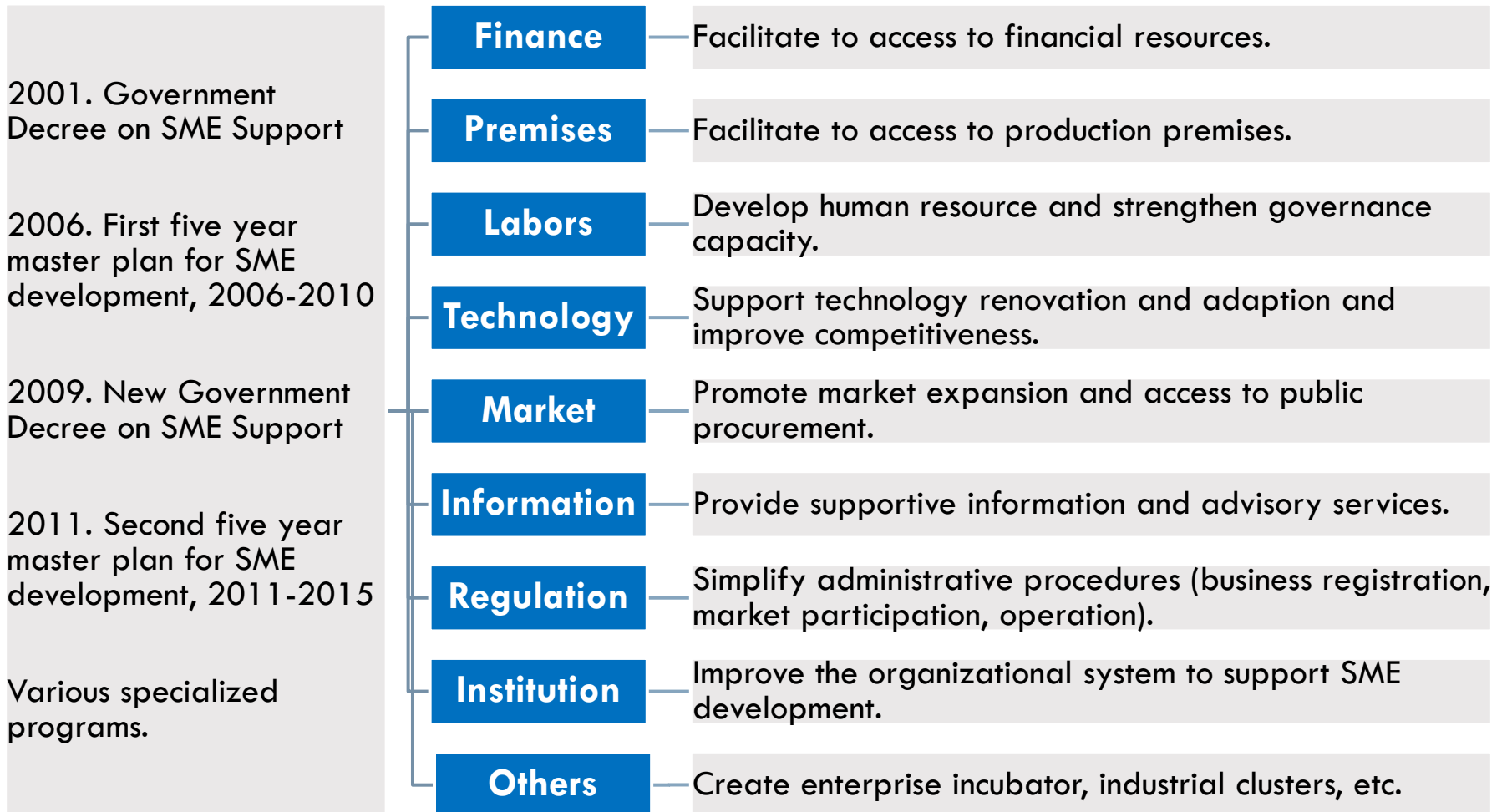
- Relatively high lending costs.
- High risk borrowers.
- Primarily engage in collateral-based lending.
- Inefficient specific skills to engage in SME lending.

### SME side

- Insufficient assets, collaterals and low capitalization.
- Vulnerability to market fluctuations and high mortality rates.
- Inaccurate financial statements,
- Inadequate data on business plan and ability to pay.

### 3. Challenges to SME supporting policies (1)

Many SME supporting policy statements have been provided and detailed over the past 15 years.



### 3. Challenges to SME supporting policies (3)

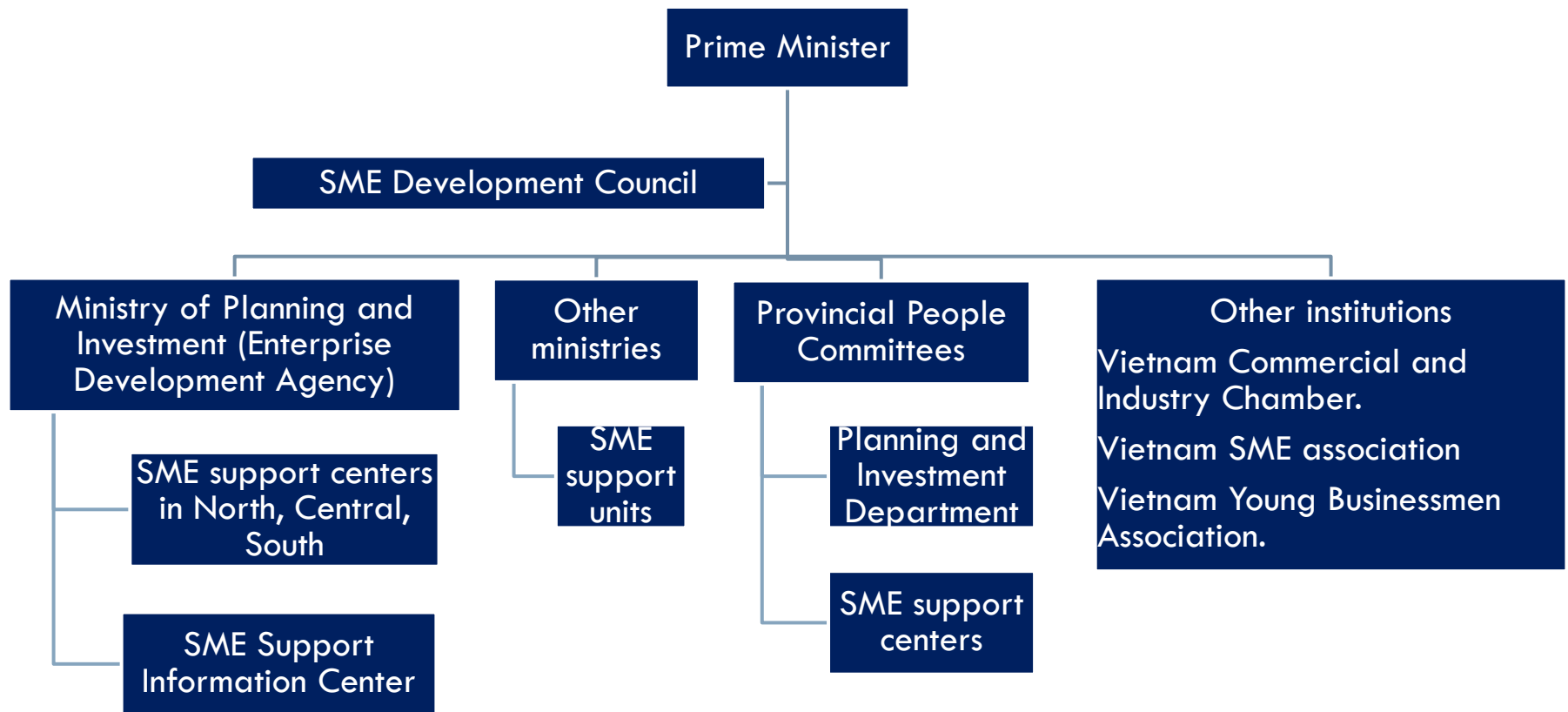
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Policy measures to facilitate SMEs access to financial resources.

1. Credit guarantee	Provincial Credit Guarantee Funds	12 funds in operation, 7 in formation process. Total status capital of VND 512 billions. Guaranteed amount nearly VND 3 trillions over 2002-2012.
	Vietnam Development Bank	Guaranteed amount of VND 11 trillions.
2. SME Development Fund	Ministry of Planning and Investment	Established in 2013, status capital of VND 2 trillions
3. Specialized credit programs	Investment and Export	Investment credit of VND 19 trillions; Export credit of VND 17 trillions over 2006-2011.
	Doing business in poor areas	More than VND 0.3 trillions as of 2012.
	Agriculture and rural areas	
	Specialized Funds	Development Investment, Promotion of Industry, Agriculture, Environment, Science and Technology.
4. Financial supports		Interest rates, credit allocation, tax exemption during the economic slowdown.

### 3. Challenges to SME supporting policies (4)

The SME support institutional framework.



### 3. Challenges to SME supporting policies (5)

These supporting policies help to increase SME number and quality but inadequate, due to

- Inadequate initial condition for effective implementation of SME supporting policies : very limited financial and human resources;
- Far behind from or not meet SME demands: all credit supports accounts for small part of outstanding loans to SMEs (VND 882 trillions , accounting 35% of total loans in 2011, and VND 863 tril.,27,9% in 2012).
- Conditions for SME access to credit supports remain high.
- Many programs applied for enterprises in general without priority to SMEs

## 4. Solutions

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- Identify more specific measures to support SMEs.
- Strengthening the implementation efficiency of policy orientations and measures identified in the current policy statements.

**THANK YOU !**